The Treasury

Budget 2026 Information Release

September 2026

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government

[4] 6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit

[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

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Inland Revenue
Te Tari Taake

POLICY

TE TAI ŌHANGA
THE TREASURY

Tax policy report: **Loans to shareholders – timelines and revised fiscal estimates**

Date:	27 February 2025	**Priority:**	High
Security level:	Sensitive - Budget	**Report number:**	IR2025/049; T2025/495

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Agree** to recommendations	7 March 2025
Hon Simon Watts **Minister of Revenue**	**Agree** to recommendations	7 March 2025

Contact for telephone discussion (if required)

Name	Position	Telephone	Suggested first contact
Jean Le Roux	Manager, Tax Strategy, The Treasury	[39]	
Claire McLellan	Acting Policy Lead, Inland Revenue		
Paul Quirke	Senior Analyst, Tax Strategy The Treasury		✓
Gordon Witte	Principal Policy Advisor, Inland Revenue		✓

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury and Inland Revenue

Note any feedback on the quality of the report	

Enclosure: No

Treasury: 5080137V1

27 February 2025

Minister of Finance
Minister of Revenue

Loans to shareholders – timelines and revised fiscal estimates

Purpose

1. This report seeks your agreement to progress work on the loans to shareholders component of the integrity measures work on a timeline for Budget 2026. This would involve consulting on this proposal in July 2025 and legislating the proposal in a 2026 Taxation Bill with implementation from 1 April 2027. Alternatively, the report outlines a potential expedited timeframe involving consultation commencing in April 2025.

2. This report also provides revised fiscal estimates for the loans to shareholders proposal which are significantly higher than those provided previously.

3. Once you have provided direction on timeframes, we will report back to you with more details on the design of the proposal which will be consulted on, along with a draft Cabinet paper and consultation document.

Background

4. Officials reported to you on 11 December 2024 seeking decisions to progress integrity measures aimed at ensuring more income earned through companies is taxed at the shareholder's marginal tax rate (IR2024/423, T2024/3336 refers).

5. Officials understand that Ministers support further policy work on the company loans to shareholders component of these integrity measures, and that your preference would be for this to be progressed on a timeline that would allow revenue to be included in Budget 2026. We understand Ministers prefer not to progress with further work on the separate imputation credit flushing proposal.

6. Following the December 2024 report, Inland Revenue has identified that when it generated fiscal estimates for the "loans to shareholders" proposal it made a calculation error that understated the revenue impacts.

7. The updated estimates (provided below at paras 17-19) are significantly higher than those previously provided. As before, the estimates are based on assumptions that are highly uncertain and so there is scope for the estimates to shift in value and timing. They are also sensitive to policy and design decisions.

8. We would expect strong stakeholder opposition to features of the proposal that are key to generating the revenue estimated.

9. The fiscal estimates provided for the "imputation credit flushing" proposal are not affected and are therefore unchanged (estimated at $55 million per annum from 2028/29). We still recommend progressing this work on a Budget 2026 timeframe. However, we understand that you do not want to progress this proposal and seek confirmation of that decision.

Loans to shareholders: summary of December 2024 advice

10. A company traditionally transfers profits to shareholders by paying dividends which are subject to tax at the marginal rate of the shareholder. Another way that a shareholder can access a company's cash is by way of a loan.

11. Although there are good commercial reasons to provide loans to shareholders, if the loan is not repaid in a short period, it can be a 'tax efficient' substitute for a dividend. This is because the shareholder receives funds without being taxed at their marginal tax rate (typically 39% for high-income individuals and trusts). Instead, tax is only paid at the company tax rate of 28% and the company will return a small amount of interest income on the loan amount over time (if interest is charged). The current rules around shareholder loans are not strong enough to ensure that either the loans are repaid or tax is charged if they are not, and as a result they are out of step with international comparators such as Canada and the UK.

12. To address this integrity risk, we recommend treating a loan to a shareholder as a deemed dividend when a shareholder borrows a material amount of money from a company and does not pay the money back by the end of the following tax year. This means the loan amount will be income to the shareholder and tax will need to be paid at the shareholder's marginal rate. The shareholder will be entitled to a deduction if the loan is later repaid.

13. In addition to addressing a significant integrity risk, the proposal would potentially raise significant amounts of tax revenue, improve horizontal and vertical equity and improve the Government's ability to effectively adjust personal and corporate tax rates.

14. The overall impact on investment is unclear. The proposal would embed the impact of the higher top personal tax rates on the cost of capital for business investment by closely held companies. This would have some negative impacts on business investment in New Zealand. However, we expect many shareholders will respond by repaying loans to avoid triggering the tax liability. This could lead to more cash being retained in companies, and being available for the companies to invest in productive assets.

15. The proposal may create cashflow difficulties for some shareholders if they have spent the cash they originally borrowed and now need to repay the remaining balance or incur a significant tax liability. This could lead to tax debt and financial hardship.

16. There is further detail on the issue, proposal and impacts of the proposal in our December 2024 advice.

We have updated our fiscal estimate of the loans to shareholders proposal to correct for an error

The fiscal estimate is an indicative estimate of a comprehensive proposal

17. There is a range of design options for the loans to shareholders proposal. Our original fiscal estimate was for officials' preferred option; a comprehensive proposal which is similar to the rules in Canada and the UK. We have revised this estimate to correct for a calculation error. The revised estimate also assumes, as before, that there will be a deemed dividend arising for the existing stock of loans if they are not repaid by the second balance date following enactment of the reform. This policy decision has the most significant impact on the fiscal estimates. Changes such as excluding the existing stock or phasing the deemed dividend in for the stock would significantly reduce the upfront fiscal impact of the proposal. Narrower options such as developing

rules similar to those in Australia are expected to apply to far fewer loans and would therefore collect much less additional tax revenue.

18. With an application date of 1 April 2027, we would expect that reporting companies and the relevant shareholders would be filing their income tax returns during the 2028/29 fiscal year. We have estimated this could result in additional tax revenue of between $3 billion to $5 billion in 2028/29. This is a one-off fiscal gain that would only arise if policy decisions are made to tax the existing stock of loans (which we recommend). Even if this policy decision is taken, our estimated range is uncertain because it depends on behavioural assumptions that are themselves highly uncertain.

19. From 2029/30 and in future years, the rules would apply to the annual net flow of loans (i.e. new lending less shareholder repayments of loans previously taxed as dividends). Initial modelling suggests that the positive revenue impact in 2029/30 and future years is more likely to be in the $200m to $500m range, but may be fiscally negative for a few years (within the same range) if the tax deductions claimed for repaying previously taxed loans outweigh the additional tax from new loans.

The fiscal estimate is uncertain and depends on assumptions and design features which may change

20. The fiscal impacts in the first year and in later years are highly uncertain and there is a downside risk that this measure collects much less revenue than estimated.

21. The fiscal estimates are based on a number of assumptions about how taxpayer behaviour might change. For example, some taxpayers may choose to repay their loans so they do not trigger an additional tax liability.

22. Some of the amounts loaned by companies to shareholders may have been funded from capital gains previously made by the company. These companies could respond to the proposal by choosing to wind up the company, so that they can distribute their capital gains tax free. While we have assumed many shareholders will repay their loans or wind-up their companies in response to the proposal, if the actual behavioural response is larger than we have assumed, this would reduce the tax revenue collected by the proposal in 2028/29.

23. The behavioural response of affected taxpayers to these proposals is highly uncertain, and even with further work and consultation we are unlikely to materially reduce the uncertainty.

24. The key design features that will significantly affect the fiscal impact include:

    24.1 **Stock of loans:** There are currently some large existing loan balances which would generate large tax liabilities at the end of the first tax year following the reform (31 March 2028), unless the shareholder can access funds to repay the loan. Stakeholders are likely to consider taxing the stock of loans issued under existing settings to be a harsh outcome and raise concerns about retrospectivity and financial hardship. Submitters are likely to strongly push for excluding the stock of loans from the proposal or for transitional relief. However, officials strongly recommend taxing the stock of existing loans because otherwise it would create a significant distortion between existing and new loans.

    24.2 **Exemptions:** The proposal could include exemptions for loan balances below a certain *de minimis* threshold, employee share schemes and loans made in the ordinary course of a lending business. Stakeholders are likely to advocate for a higher *de minimis* and further exemptions.

25. Because consultation will inform the design of the proposal, the impacts that design features may have on the fiscal estimates will become more certain following consultation.

26. The administration impacts to implement and administer this initiative would be subject to design and policy options. An early estimate of these costs would be $2 million operating to implement and $2 million operating a year to administer.

Seeking confirmation of decision on imputation credit flushing

27. To ensure that income earned through a company is taxed, we previously recommended an "imputation credit flushing" rule. This would apply the shareholder rate to a company's undistributed earnings when ownership of the company changes by 34% or more. Under the existing imputation rules, imputation credits are cancelled if a company's ownership changes by 34% or more. The proposed reform would replace this cancellation with a deemed distribution of fully imputed dividends to the company's shareholders. This would achieve the same tax outcomes as cases where a company distributes its profits as imputed dividends to its shareholders.

28. We still recommend that this proposal be consulted on as part of the proposed 2025 consultation document. However, we understand that you do not want to progress this proposal and therefore seek confirmation of this position.

Information reporting to support compliance

29. To support the integrity of the loans to shareholders proposal, it is important that Inland Revenue holds sufficient information. Better information reporting to Inland Revenue could be used to improve compliance with existing dividend rules and the proposed new rules. We recommend consulting on proposals for improved information reporting as part of the consultation document.

Recommended timeframes

30. In the December 2024 report we recommended progressing the work on a Budget 2026 timeline. This would involve publicly consulting on the proposal from July 2025, legislating the proposal in a 2026 Taxation Bill and implementing the proposals from 1 April 2027, with the resulting revenue arising from the 2028/29 fiscal year onwards.

31. The new rules would require thorough consultation to identify and mitigate unintended consequences and practical issues. This would include workshops with tax advisors and consideration of detailed submissions. We recommend consulting after Budget 2025 given the number of current tax consultations and other tax policy projects being progressed for Budget 2025. This could involve publishing a consultation paper in July 2025 and reporting back to Ministers and Cabinet with final policy recommendations in October 2025.

32. This timeline would allow for a full consultation process to inform the proposed design and estimated impacts of the proposal before the revenues are included in Budget 2026. It would defer key design decisions, allowing time to consult and build a better understanding of the issue and the best policy response.

33. Officials note that irrespective of whether these proposals are progressed as part of Budget 2025 or 2026, the revenue generated by these proposals is not able to be recognised until the 2028/29 financial year without significant additional risk. This is because, under both options, legislation would be enacted through a 2026-27 Taxation Bill with application from 1 April 2027.

Expedited timeframe

34. While we have outlined a recommended timeframe that would allow revenue to be recognised for Budget 2026, we understand you may wish to publish a consultation document as soon as possible.

35. Mid-April is the earliest we could publish, and that would require reporting to you with a Cabinet paper and draft consultation document on 13 March.

36. Under this expedited timeframe consultation would occur at a busy time for stakeholders; it is tax filing season and there are a large number of other consultation papers and tax policy work programme items that stakeholders will want to engage with, especially given the prospect that some of these measures are included in Budget 2025. As previously mentioned, we also expect the proposal to generate significant negative reaction from stakeholders. It is important to avoid any confusion that this measure might be part of Budget 2025.

37. While we strongly recommend any proposals be included in a 2026 Taxation Bill following a fulsome Generic Tax Policy Process, it would be technically possible to expedite this work for introduction in the 2025 Taxation Bill. This would mean a very limited consultation process and little time to work through the issues we expect stakeholders to raise. It would be very challenging to resolve issues through a Select Committee process given the complexity of the proposal and the fact any changes are likely to come with significant fiscal cost.

38. If you want to progress work on an expedited timeframe, we require that direction by 7 March.

Next steps

39. Officials recommend that consultation is undertaken in the form of a discussion document or officials' issues paper and that this is based on officials' preferred comprehensive option for taxing loans to shareholders.

40. Subject to your agreement to progress this work, officials will report back in June with a draft consultation document and a Cabinet paper seeking approval to release the consultation document and publicly consult on the proposal in July 2025. We would report back to Ministers and Cabinet seeking final policy decisions in October 2025. An indicative timeline of next steps is provided below:

Deliverable	**Date**
Cabinet paper and draft consultation document to Ministers	5 June
Lodgement of Cabinet paper	19 June
ECO approval	25 June
Cabinet approval to release consultation document	30 June
Release of consultation document	1 July
Submissions close	15 August
Cabinet paper to Ministers seeking final policy decisions	10 September
Lodgement of Cabinet paper	2 October
ECO approval	8 October
Cabinet approval	13 October 2025
Bill introduced	August 2026
Select Committee	September 2026 – February 2027
Bill enacted to apply from 1 April 2027	March 2027

Recommended action

We recommend that you:

Minister of Finance	**Minister of Revenue**

Loans to shareholders

Agree to progress the policy work on the **loans to shareholders** proposals on a timeline that would allow revenue to be included in Budget 2026.

Agreed/Not Agreed	Agreed/Not Agreed

Agree to prepare a consultation document for release in July 2025 (officials' recommended option).

Agreed/Not Agreed	Agreed/Not Agreed

OR

Agree to prepare a consultation document for release as soon as practicable in April 2025.

Agreed/Not Agreed	Agreed/Not Agreed

Agree that the proposals be legislated for as part of a 2026 Taxation Bill with application from 1 April 2027, subject to the outcome of consultation.

Agreed/Not Agreed	Agreed/Not Agreed

Note there are a range of design options for the shareholder loans proposal and the indicative fiscal estimate is for officials' preferred option (a comprehensive option which is similar to the rules in Canada and the UK).

Noted	Noted

Note that officials will report back to you in March 2025 with a draft consultation document and a Cabinet paper seeking approval to release a consultation document to publicly consult on the proposal.

Noted	Noted

Note that officials have updated the estimated revenue for a comprehensive proposal for taxing loans to shareholders and the revised indicative estimate is $3 billion to $5 billion over the forecast period (noting that this amount is a one-off fiscal gain and it is subject to significant uncertainties).

Noted	Noted

Imputation credit flushing

Agree that it is your preference to **stop** work on the imputation credit flushing aspect of the integrity measures workstream so the resources can be reallocated to other tax and social policy work programme priorities.

Agreed/Not Agreed	Agreed/Not Agreed

Information reporting

Agree to progress work on improved information reporting to support compliance and consulting on this issue as part of the consultation document.

Agreed/Not Agreed

Agreed/Not Agreed

[39]

Jean Le Roux
Manager – Tax Strategy
The Treasury

Claire McLellan
Acting Policy Lead
Inland Revenue

Hon Nicola Willis
Minister of Finance
/ /2025

Hon Simon Watts
Minister of Revenue
/ /2025