The Treasury

Budget 2026 Information Release

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[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

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[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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Tax policy report

TE TAI ŌHANGA THE TREASURY

Inland Revenue Te Tari Taake

Company loans to shareholders – updated advice

Date	5 March 2026	**Priority**	High
Security level	Budget sensitive	**Report number**	IR2026/019, T2026/351

Action sought		**Deadline**
Minister of Finance	**Agree** to proposed policy settings for company loans to shareholders	23 March 2026
Minister of Revenue	**Agree** to proposed policy settings for company loans to shareholders	23 March 2026

Purpose

This report provides advice on progressing tax policy measures for company loans to shareholders based on new information gained from submissions and consultation.

The fiscal implications arising from the policy settings you agree to will be included for subsequent consideration by Budget Ministers and Cabinet.

Contact for phone discussion, if required

Name	Position	Phone number	First contact
Claire McLellan	Acting Policy Lead, Inland Revenue	[39]	
James Haughton	Unit Manager, Revenue and Economic Development, The Treasury		
Gordon Witte	Principal Policy Advisor, Inland Revenue		✓

Company loans to shareholders – updated advice

Executive summary

1 This report updates you about company loans to shareholders (shareholder loans) following consultation and proposes a way forward for your consideration. This proposal involves focusing on specific issues, including a legislative change for inclusion in Budget 2026.

2 Following your decisions on these matters, officials recommend we prepare an update to inform stakeholders. Depending on your preferences, this update could be done informally as part of ongoing consultation with submitters, more widely via an update to the Tax Policy website, or an announcement by Ministers.

3 Most submitters on the Inland Revenue issues paper[1] considered the current rules provided fair tax outcomes including sufficient incentives to promptly repay loans or replace them with taxable dividends or salaries.

4 Submitters accepted there can be a problem with collecting tax in cases when the loans are not ever repaid. We recommend progressing policy options that focus on this problem.

5 Submissions raised strong concerns with the proposal in the issues paper to require shareholder loans to be repaid within a time limit. They considered any time limit would be a significant overreach, unduly impacting ordinary practices and imposing high compliance and tax costs, disproportionate to the problem.

6 Some submitters suggested a more targeted policy option be developed instead, focusing on high-risk loans that appear unlikely to be repaid. Officials agree this option is worth exploring and recommend conducting further policy work and consultation during 2026 to develop and test this new targeted policy option, which could be included in Budget 2027.

7 We recommend progressing as part of Budget 2026 a proposal to tax shareholder loans when the lending company is removed from the Companies Register. Submitters generally supported this proposal. This reform is estimated to generate $152 million of additional tax revenue over the forecast period but also has estimated operating costs of $6 million over the forecast period from increased debt impairment.

Background

8 Close companies with only a few shareholders often lend funds to their shareholders.

9 You directed Inland Revenue to consult on proposed new tax rules to ensure shareholder loans are repaid or taxed as dividends (IR 2025/440 refers). The package of proposed reforms was:

- *Time limit for repaying new loans*: If a new loan is not repaid within 12 months after the income year in which it was made then it could be taxed as a dividend. To minimise the impact on small businesses and ordinary business practices, the proposed time limit would only apply to companies whose total lending to shareholders was more than $50,000. To mitigate cashflow pressures on loans previously made it would apply to new loans made after 4 December 2025 (the date the consultation document was published).

[1] Improving taxation of loans made by companies to shareholders (dated 4 December 2025)

- *Taxing loans when a company ceases*: A new rule would ensure that any outstanding loans are taxed when a company is removed from the Companies Register.
- *Improved reporting:* Companies would be required to provide additional information to Inland Revenue to ensure compliance.

Submissions

10 Inland Revenue used an officials' issues paper and meetings with interested stakeholders to conduct public consultation between December 2025 and February 2026. Thirty-eight submissions were received and officials met with nine of the submitters.

11 The main themes from submissions are discussed below.

12 **The problem occurs when loans are not repaid, rather than an inherent tax advantage.** Submissions disagreed that there was an unintended tax advantage or unfairness from using shareholder loans aside from a limited number of cases when the loan was never repaid prior to the company ceasing.

13 Submissions noted examples of commercial and practical reasons why shareholder loans arise that are not motivated by any potential tax benefit. They considered the current rules encourage loan repayment and shareholders are motivated to repay their loans because that is best practice and minimises overall costs.

14 **Support for taxing loans on company cessation.** There was broad support for taxing outstanding loans when a company is removed from the Companies Register, which could proceed independently and ahead of any other reforms.

15 **Strong concerns proposed time limit would be too broad or disruptive.** Only three of the 38 submissions supported the proposed time limit for repaying new loans. Other submissions were opposed because they considered it would be a significant overreach, unduly impacting ordinary practices and compliant shareholders who will eventually repay the loan. Submitters considered it would significantly increase the complexity of the tax rules and impose high compliance and tax costs on close companies, disproportionate to the problem of loans that are never repaid.

16 Although most submitters consider a time limit rule was the wrong approach due to its broad impacts, some submitted that if it did proceed it should have a higher de minimis value (ranging from $100,000 to $2.5 million) and a longer time limit (such as five or seven years). Others considered it needed broad exemptions, such as excluding genuinely commercial or arm's length loans from the time limit. They also considered shareholders should be able to use loans (or another mechanism) to extract capital gains from a company without having to liquidate the company (capital gains can be distributed tax-free on liquidation under current law).

17 **Some submitters[2] suggested a more targeted policy option** be developed instead, focusing on high-risk loans that appear unlikely to be repaid.

18 On 19 February 2026 we provided your offices with a briefing note (BN 2026/055 refers) that provides more information on these submission points.

Refocusing the problem and solution

19 Submissions have caused us to reflect on our concerns with shareholder loans, and to refocus the problem definition.

[2] BusinessNZ, CA ANZ, Corporate Taxpayers Group, Cooperative Business NZ, Deloitte, OliverShaw

20 We remain of the view that there can be a tax advantage from the use of shareholder loans. For example, the loans can be used to exploit differences in the company and personal tax rates. Submitters consider this is a wider issue with the structure of the tax system, and in their view, very few shareholder loans were tax-motivated or produced an enduring tax advantage. While officials accept that many shareholder loans are used appropriately and do not present problems, other loans can generate potential integrity concerns that could be considered further.

21 In contrast, submissions generally accepted there can be problems with collecting tax in cases when the loans are not ever repaid. The current rules allow for shareholder loans to accrue large balances that become unmanageable over the life of the business.

22 We now consider that the primary risk lies in unrepaid shareholder loans. This refocussed problem definition aims to identify when Inland Revenue should intervene in high-risk loans before they become unmanageable, without disrupting normal business operations.

23 We recommend progressing policy options that focus on this problem. This includes the company cessation rule from the issues paper, which we recommend progressing for Budget 2026.

24 To bolster the company cessation rule, officials recommend exploring a targeted rule to address high-risk loans. This rule would be designed to enable Inland Revenue to assess tax on the shareholder loan earlier, rather than waiting for the company to be removed from the Register or liquidated (by which time the shareholder may no longer have the financial means to pay the tax). By intervening earlier, Inland Revenue may be able to stop tax debt (and debt to other company creditors) from growing in some cases.

25 A targeted rule could also help address issues from shareholders or directors stripping assets from a company leaving the company unable to meet its tax obligations. This is because overdue company tax debt would be a situation when a targeted rule could apply to tax the shareholders (who will often also be company directors) on loans they have previously received from their company. Inland Revenue considers there are more general issues with directors allowing their companies to incur significant tax debt and is preparing a discussion document in collaboration with the Institute of Directors to consult on director liability rules similar to the Director Penalty Notice[3] regime operating in Australia. A draft discussion document will be provided to you later this month or early next month for your consideration.

26 Officials will further consider other potential concerns with shareholder loans. If this further analysis identifies significant issues, we will report back with advice on longer-term options that could be considered to address these.

Taxing shareholder loans when lending company ceases

27 We recommend progressing with the proposal to tax shareholder loans when a company is removed from the Companies Register. As noted above, submitters generally supported this proposal.

28 We recommend this new rule apply to any company removed from the Companies Register on or after 4 December 2025 (the date the issues paper was published).

29 Some submitters[4] suggested the tax apply six months after the company is removed from the Companies Register (rather than the three months proposed in the issues

[3] Director penalty notices would make directors personally liable in certain cases for tax debts owed by their companies and have been suggested by the New Zealand Initiative as a potential tool for addressing tax debt: The tax problem New Zealand cannot seem to solve | The New Zealand Initiative

[4] CA ANZ, Federated Farmers, Booster, Russell McVeagh. Deloitte noted three months was too short.

paper). This grace period is intended to accommodate ongoing companies who may have been inadvertently removed and then restored to the Companies Register, but submissions considered three months was too short. Officials recommend accepting this change. Compared to three months, a six-month grace period would generate $11 million less over the five-year forecast period 2025/26 to 2029/30 because the tax would arise three months later.

30 Officials recommend you seek Cabinet decisions on this proposal as part of Budget 2026. We recommend legislating it using a full Bill process (such as the 2026–27 omnibus taxation Bill) to allow stakeholders to submit on the legislation, which will reduce the risk of any unintended consequences.

Use further consultation to develop targeted rule

31 In response to submitters' concerns about the broad and disproportionate impacts of the time limit for repaying loans that was proposed in the issues paper, we recommend not progressing that proposal at this time.

32 Officials recommend developing a targeted policy option that focuses on high-risk loans that appear unlikely to be repaid. Subject to your agreement, we recommend officials conduct further consultation on the problem that a targeted rule would seek to address and its potential design. We consider that at a minimum, consultation with key stakeholders who submitted on the issues paper is necessary to ensure any new rule is workable. Public consultation on a more targeted option could also be useful because it would reduce policy uncertainty for the affected companies and stakeholders, given the issues paper proposals were proposed to apply to new loans made after 4 December 2025.

33 Any work to develop a new targeted rule would need to proceed on a longer timeframe, during the remainder of 2026, and the targeted rule could be included in Budget 2027.

Design of targeted rule

34 There are various ways to design a more targeted rule, but the main option we have been considering is based on an approach that CA ANZ suggested in their submission. We would report back to you on the detailed design of a targeted rule following consultation.

35 This rule could initially assess shareholder loans against some objective risk factors to determine whether it should be treated as unlikely to be repaid (and therefore income of the shareholder). However, it would also include a rebuttable assumption, with the ability for a shareholder to seek confirmation from the Commissioner that the rule does not apply.

36 The types of risk factors that could trigger application of the rule could include one or more of the following:

- The loan exceeds a high de minimis (such as $1 million).
- The loan balance has been increasing over a set time period (eg, five years) with no efforts to reduce the balance.
- The company has GST/PAYE/other tax debt that is at least six months overdue.

37 The rebuttable assumption could require the shareholder to satisfy the Commissioner that the loan is genuinely likely to be repaid, taking into account factors such as:

- Whether the terms of loan are commercial.
- The shareholder's ability to repay the loan (looking at net assets, income expectations, etc – what a bank would want to see if they were to make a loan).
- Whether the company has retained earnings that could be used to repay the loan.

- Whether the company can show that the loan was sourced from a capital gain that would not be taxed if it were distributed on liquidation of the company.

38 The targeted rule would tax the shareholder on the outstanding value of the loan. Alternatively, we could consider if the targeted rule should instead require the shareholder to provide security to Inland Revenue. This approach was recommended by the 2018–19 Tax Working Group and OliverShaw's submission suggested we consider this option. Our initial view is that requiring security is likely to be more complex to administer and less effective than assessing income to the shareholder.

Potential impacts of more targeted rule

39 An objective of the targeted rule would be to minimise the impact on ordinary commercial use of shareholder loans. In contrast, the time limit proposed in the issues paper would have required all lending companies to monitor and regularly reduce their loan balances to ensure they remained below the $50,000 de minimis.

40 Additional costs would arise for shareholders who appear unlikely to be able to repay, because their business is failing to pay off its tax debt or because they have borrowed an excessive amount for many years, relative to their income or assets. These taxpayers would need to engage with Inland Revenue to provide evidence of how they can repay the loans. If they provide insufficient evidence, the shareholder would be assessed as receiving a taxable dividend equal to the outstanding value of their loans. This may lead to some businesses ceasing earlier than under the status quo. Some of the affected shareholders may need to sell assets (investments and property) to repay the loan or any tax that is assessed on them.

41 A key risk with targeted rules is that they can be complex to administer and can have high administrative costs that limit their practical application or effectiveness. The requirement for Inland Revenue to consider evidence provided by the taxpayer to support their position could also be resource intensive. We will report back with advice on the potential fiscal benefits, administrative costs and risks as we further develop the targeted rule.

Improved record-keeping and reporting

42 Submitters were generally supportive of the need for improved record-keeping for available subscribed capital and available capital distribution amounts. Under existing tax rules these amounts can be distributed tax-free (instead of counting as a taxed dividend) when a company is liquidated (removed from the Companies Register).

43 Despite this support, some submitters cautioned that mandatory reporting could impose disproportionate compliance costs on small and medium companies, a lot of whom are unlikely to ever use these amounts in their tax calculations. To address these concerns, companies would have the option to elect not to maintain a memorandum account but instead calculate the relevant amounts if they are ever required (for example, because the company liquidates and now needs to compile evidence of the amounts).

44 We recommend introducing new reporting requirements within the scope of Inland Revenue's existing powers for prescribing forms. This would mean legislative change is not required. These changes could potentially apply from income years starting on or after 1 April 2027.

Financial implications

Tax revenue and non-departmental impacts

45 Taxing outstanding shareholder loans six months after the lending company is removed from the Companies Register is estimated to generate $152 million of additional tax

revenue over the forecast period. We estimate operating costs of $6 million over the forecast period from increased debt impairment.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Other Persons	7.000	31.000	28.000	46.000	40.000
Non-Departmental					
Impairment of Debt and Debt Write-Offs	-	-	2.000	2.000	2.000
Total Operating	**(7.000)**	**(31.000)**	**(26.000)**	**(44.000)**	**(38.000)**

Administrative impact

46 Implementing the company cessation and record-keeping proposals will require Inland Revenue staff resources of subject matter experts, testers, customer service and domain specialists. The IT systems changes will require outsourcing to the FAST service provider. The estimated capital and operating costs are shown in the following table, and Inland Revenue is seeking funding for these required resources as part of Budget 2026.

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Capital injection					
System build	-	0.500	-	-	-
Total capital	-	**0.500**	-	-	-
One-off operating	-	0.300	-	-	-
Ongoing operating	-	0.100	0.450	0.450	0.450
Total Operating	**-**	**0.400**	**0.450**	**0.450**	**0.450**

Next steps

47 The fiscal implications arising from the policy settings you agree to will be included for subsequent consideration by Budget Ministers and Cabinet.

48 If you agree to officials developing a more targeted policy option, we will consult stakeholders on this and report back to you in the second half of 2026.

49 Officials recommend we prepare an update to stakeholders announcing Ministers' decisions in this report. Depending on your preferences, this update could be done informally as part of ongoing consultation with submitters, or more widely via an update to the Tax Policy website or an announcement by Ministers. The timing of any update would also depend on your preferences.

Recommendations

Subject to discussion with Budget Ministers, we recommend you:

1. **Agree** to a new rule to tax outstanding shareholder loans six months after the lending company is removed from the Companies Register, for Budget 2026.

   Agree / Disagree | Agree / Disagree

   Minister of Finance | *Minister of Revenue*

2. **Instruct** officials to develop a more targeted policy option focusing on the problem of shareholder loans that appear unlikely to be repaid, including consultation with stakeholders, and report back to you in the second half of 2026.

   Agree / Disagree | Agree / Disagree

   Minister of Finance | *Minister of Revenue*

3. **Agree** to Inland Revenue developing new record-keeping requirements for available subscribed capital and available capital distribution amounts.

   Agree / Disagree | Agree / Disagree

   Minister of Finance | *Minister of Revenue*

4. **Instruct** officials to prepare an update to stakeholders to inform them of the decisions made in this report.

   Agree / Disagree | Agree / Disagree

   Minister of Finance | *Minister of Revenue*

5. **Note** the following forecast changes as a result of the decision in recommendation 1 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Crown Revenue and Receipts:					
Other Persons	7.000	31.000	28.000	46.000	40.000
Non-Departmental					
Impairment of Debt and Debt Write-Offs	-	-	2.000	2.000	2.000
Total Operating	**(7.000)**	**(31.000)**	**(26.000)**	**(44.000)**	**(38.000)**

6. **Note** the following changes to appropriations and/or departmental capital injections to provide for the decisions in recommendations 1 and 3 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m - increase/(decrease)				
Vote Revenue	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Capital injection System build	-	0.500	-	-	-
Total capital	-	**0.500**	-	-	-
One-off operating	-	0.300	-	-	-
Ongoing operating	-	0.100	0.450	0.450	0.450
Total Operating	**-**	**0.400**	**0.450**	**0.450**	**0.450**

7. **Agree** that the increase in tax revenue and appropriation impacts in recommendations 5 and 6 above be managed against the Budget 2026 operating allowance

Agree / Disagree — Agree / Disagree

Minister of Finance — *Minister of Revenue*

OR

Defer the decision on the fiscal management of the increase in the tax revenue until later in the Budget process

[39]

James Haughton

The Treasury

5 / 3 / 2026

Claire McLellan

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5 / 3 / 2026

Hon Nicola Willis

Minister of Finance

/ /2026

Hon Simon Watts

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