Inland Revenue
Te Tari Taake

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Information Sheet

Improving taxation of loans made by companies to shareholders

Inland Revenue is asking for feedback on proposals to improve the way new loans by companies to shareholders are taxed.

What is the issue?

Companies controlled by a few shareholders will often lend money to their shareholders as a way for those shareholders to access company funds. Most companies manage these loans responsibly, but concerns can arise when large balances remain for many years or when the company is wound up.

If shareholders borrow large amounts from their company and don't pay it back, there can be failures to pay tax or only a small amount of tax may be collected each year on the loan interest. Inland Revenue's data has revealed some very large outstanding loans from companies to their shareholders. For the 2024 tax year, about 5,550 companies had outstanding loan balances of more than $1 million each.

Our current rules mean shareholders who borrow from their company can pay less tax compared with other taxpayers who are fully taxed on their salary, wages and dividends, or profits they earn as a sole trader or partnership.

Example:

Company A loans $100,000 to its only shareholder, Kate. The current rules require tax be paid on $6,670 of annual interest income. Kate pays this interest to Company A, so Company A pays $1,868 of tax on this interest income each year (28% of $6,670 is $1,868).

In contrast, a different company, Company B pays Ben a $100,000 dividend or a $100,000 salary. In these cases, the full value of the $100,000 payment is taxed at Ben's marginal tax rate, which is 39% as he earns $180,000 of other income. Ben would pay $39,000 of additional tax on the salary payment or an unimputed dividend. If the dividend was fully imputed, Ben would pay $11,000 of additional tax.

Shareholders can also use loans to withdraw funds from their company prior to the company closing down. This can leave creditors out of pocket and lead to failures to collect tax when a company ceases.

What is proposed?

Time limit for repayment: A new time limit to encourage repayment of new loans by taxing them as dividends if they are not repaid within 12 months after the end of the income year they were made. If the new loan is repaid within that time, there would be no further tax to pay.

If progressed, it is intended the proposed time limit would apply only to new loans made on or after 4 December 2025. It would not tax or impose a time limit on any amounts that have been previously borrowed. To ensure it does not impact small businesses and ordinary transactions, the proposed time limit would only apply to companies whose total lending to shareholders is $50,000 or more.

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 need to provide additional information to Inland Revenue to help ensure compliance.

What feedback is Inland Revenue seeking?

We invite feedback on the issue and the proposals, including how they could be improved to ensure they don't impose undue costs on the affected taxpayers.

Ministers have not made any decisions on these proposals. The consultation process will help ensure that the advice Inland Revenue provides to Ministers is balanced and practical.

Who is affected?

The proposals affect shareholders who receive a loan from their company and who do not repay these loans. These are typically closely held companies, that is, one owned by an individual or small group of shareholders.

Widely-held companies, partnerships and sole traders cannot use shareholder loans so are unaffected.

The proposals are designed to allow companies to continue to use short-term drawings as part of normal business cashflow management.