



Information Sheet

This information sheet explains the current policy proposal included in Budget 2026. The proposal may change as the legislation moves through the parliamentary process. The information is up to date as at 28 May 2026.

Company loans to shareholders

A new proposal would treat any outstanding loans from a company to a shareholder as taxable income of the shareholder six months after the lending company is removed from the register of companies under the Companies Act 1993.

Why is this change needed?

Many companies have outstanding loans to shareholders and directors (or their relatives) when they are removed from the register of companies. This can include overdrawn shareholder current accounts or other shareholder debit loan amounts.

Under the current law, there is no specific provision that treats an outstanding shareholder loan as income of the shareholder if the company is removed from the register (whether through a formal liquidation process or otherwise). While the outstanding loan amount will be income of the shareholder, the timing of this is unclear and can often be many years after the company is removed from the register.

Once a company is removed from the register of companies it is difficult for Inland Revenue to monitor and assess whether a shareholder has complied with their obligations. Practically speaking, this means the amount outstanding will not be treated as income of the shareholder and no tax will be paid.

What is the proposed change?

This new rule would ensure that when a company is removed from the register of companies, any outstanding shareholder loan amount (that is, the amount owed by a shareholder to the company) would result in taxable income for the borrower.

This rule would apply six months after a company is removed from the register of companies if, at the time the company is removed from the register of companies:

- a person is a party to a financial arrangement (such as a loan or drawings) with the company, and
- the person is a shareholder or director of the company, or a close relative of a shareholder or director of the company.

The new rule would treat any remaining payments under the financial arrangement as being discharged six months after the date the company is removed from the register. This would then require the person to calculate a base price adjustment under the existing rules and that calculation would result in the outstanding loan balance being taxable income for the person. The period of six months allows for reinstatement of a company that is inadvertently removed from the register.

The new rule would apply in relation to any company removed from the register on or after 4 December 2025, the date the officials Issues Paper was released.¹

Who would be affected?

The new rule would apply to any shareholders who receive a loan from their company and who do not repay these loans. The rule would also apply if the loan is to a director of the company, or a close relative of a shareholder or director of a company. This would ensure that the rule cannot be avoided by making a loan to a related party instead of the shareholder or director.

Companies that make this type of loan are typically closely-held companies, that is, companies that are owned by an individual or small group of shareholders.

Widely-held companies, partnerships and sole traders are expected to be unaffected by this proposed change.

The rule would only apply if a company is removed from the register of companies with the loan not being repaid. Most small business owners manage their loans and drawings to repay them prior to the company ceasing so would not be affected by the change.

¹ <https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2025/consultation-shareholder-loans/officials-issues-paper-shareholder-loans.pdf?modified=20251204031700>