

Regulatory Impact Statement: Improving taxation of loans made by companies to shareholders

Decision sought	<i>Analysis produced for the purpose of informing final Cabinet decisions</i>
Agency responsible	<i>Inland Revenue</i>
Proposing Ministers	<i>Minister of Finance and Minister of Revenue</i>
Date finalised	<i>13 May 2026</i>

Companies controlled by a few shareholders will often lend money to their shareholders. New tax rules are proposed to mitigate the risk of these shareholder loan balances never being repaid or taxed, particularly at the time the company ceases.

Summary: Problem definition and options

What is the policy problem?

Companies controlled by a few shareholders often lend money to those shareholders. The current rules will only tax these loans if the loan is forgiven, or to the extent that the interest charged is below a prescribed rate. Under the status quo, shareholder loans can create tax integrity issues if they are not repaid or taxed appropriately.

There are three separate but related problems. The main problem is that some shareholder loan balances can grow to an unmanageable level, so that tax is not collected, particularly when the lending company ceases. The second problem is a lack of clarity in the current rules for the timing of income when loans remain unpaid when a company ceases. The final problem is there can be inadequate record keeping to support tax compliance when companies cease (for both shareholder loans and for calculating amounts treated as taxable dividends).

Non-regulatory options, such as education and increased Inland Revenue compliance activity, would not be effective solutions in isolation. Non-regulatory options (including Option 6) will be used to support the policy options.

What is the policy objective?

The policy objective is to encourage companies to manage their shareholder loan balances to mitigate the risk of the balances never being repaid or taxed. This could result in the loans being replaced by taxable dividends or salaries or the company having more funds available to pay creditors or invest into the company's business activities.

The policy options will be successful if they result in a reduction in the number and value of outstanding shareholder loans that represent a high risk of not being repaid or taxed.

Success will be measured by improving the quality of information collected by Inland Revenue and monitoring for reductions in the amounts owing to shareholders when a company is removed from the Companies Register.

What policy options have been considered, including any alternatives to regulation?

Option 1: Status quo – no policy change

This option involves continuing with the existing rules. Shareholder loans become taxable dividends only if the loan is forgiven (which may not occur until many years after a company ceases, and the timing of this is unclear) or to the extent the interest charged by the company is less than a prescribed interest rate (based on a floating mortgage rate). There are limited record-keeping and reporting requirements.

Option 2: Time limit for repaying new company loans to shareholders

This option would tax shareholder loans as dividends if they were not repaid within 12 months after the end of the income year in which they were made. This rule would not apply if total lending to shareholders remains below a de minimis (such as \$50,000). It would be based on similar rules that operate in the United Kingdom and Canada.

Option 3: Targeted intervention for loans at risk of not being repaid

A targeted rule could identify high-risk loans using information such as loan size, increasing balances, and company tax debts. Those loans could then be taxed unless the affected shareholders provide sufficient evidence on their ability to repay the loan. This option aims to minimise the impact on ordinary commercial loans that are likely to be repaid.

Option 4: Requiring loans to be documented with commercial terms

This option would require company loans to shareholders to be documented with commercial terms. Undocumented or non-commercial loans would be taxed as dividends. Australia's rules apply this type of approach but have broad exceptions and a long maximum repayment period of seven years (or 25 years if secured by land).

Option 5: Tax shareholders on an outstanding loans six months after company is removed from the Companies Register (preferred option)

Under this option, an outstanding loan balance would be taxed as income for the shareholder six months after the date the company is removed from the Companies Register. This solves the second problem by providing a certain taxing point for loans that will not be repaid.

Option 6: Improving record keeping (preferred option)

This option involves Inland Revenue identifying low-cost ways (using Inland Revenue's existing ability to prescribe forms) to improve record keeping of shareholder loans and other relevant information to support tax compliance when a company ceases. This option will be used to support the other options.

What consultation has been undertaken?

In September 2025, targeted consultation was undertaken with 10 private sector advisory firms. Inland Revenue used an officials' issues paper and meetings with interested stakeholders to conduct public consultation between December 2025 and February 2026. Some 38 submissions were received and officials met with nine of the submitters.

There was broad support from stakeholders for taxing unpaid shareholder loans when a company is removed from the Companies Register (Option 5) and for improved record keeping (Option 6).

Most stakeholders opposed the proposed time-limit rule (Option 2) because they considered it would be significant overreach. Some submitters suggested that a more targeted approach (Option 3) be considered.

As a result of public consultation, officials have changed our recommended policy options. Officials no longer recommend Option 2 and seek to progress Options 5 and 6.

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

Yes.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall and the nature of those impacts

The preferred options will primarily affect shareholders who have borrowed funds from companies that are removed from the Companies Register. Improved record keeping could potentially impact all companies, but Inland Revenue will specifically look for ways to minimise additional compliance costs.

Monetised costs include increased tax collected from the affected shareholders (\$146 million over the forecast period 2025/26 to 2029/30 and \$38 million per year subsequently). If the shareholder's business has failed, they may no longer have the financial resources to pay tax, which may lead to increased impairment of tax debt (estimated to be a fiscal cost of \$6 million over the forecast period and then \$2 million per year subsequently). The tax collected figures include this impairment.

Inland Revenue will incur one-off costs of making IT system changes (\$0.5 million in 2026/27) and ongoing administration costs (\$0.45 million per year). The additional compliance costs imposed on affected taxpayers and their advisors are estimated to be low.

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall, and the nature of those impacts

Monetised benefits are increased tax revenue for the Government (\$146 million over the forecast period 2025/26 to 2029/30 and \$38 million per year subsequently). The main non-monetised benefits are improved record keeping and information to support tax compliance and modest improvements to the fairness and integrity of the tax system.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

The benefits of the proposals are likely to outweigh the costs. The cost-to-benefit ratio should not change over time because both should remain relatively consistent.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Option 5 will be implemented through legislative amendments to the Income Tax Act 2007, with application to companies removed from the Companies Register from 4 December

2025. Option 6 can be implemented by using Inland Revenue's existing ability to prescribe forms so does not require new legislation.

Inland Revenue will administer the new rules. It expects to provide operational guidance that may include new websites, tax return guidance, presentations and communications to tax agents, and legislative commentary to explain the new rules. Inland Revenue will also update its internal systems to track key measures for monitoring the effectiveness of the new rules.

The main implementation risk is the affected population of companies and shareholders will often have poor records in the period leading up to the company ceasing. This will be mitigated by Option 6 (improving record keeping) and by allowing Inland Revenue to make assessments based on the information it has available.

Limitations and Constraints on Analysis

While Inland Revenue has data on the value of the shareholder loans, there are data quality issues because we expect many loans (such as informal drawings) are not reported and others may be incorrectly reported. A consultation process was used to seek further information from external stakeholders on their experiences with the use of shareholder loans. The data uncertainty is further exacerbated for companies that are removed from the Companies Register because these companies may increase lending prior to being removed and may not report this new lending to Inland Revenue as part of their tax return. In most cases, the company is being removed because they failed to file annual returns with the Companies Office, which suggests poor record keeping and reporting.

The estimated impacts of the options depend on past year data, which may be unreliable. It depends on an assumption that the value of shareholder loans, particularly for the companies removed from the Companies Register, is similar in future years.

There is a risk that a change in key design features, particularly for Options 2 and 3, change their estimated impacts.

The limitations do not prevent Cabinet making informed decisions on the proposals. Consultation has been used to improve the analysis of the problem and the expected impacts of the options.

I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits, and impact of the preferred option.

**Responsible Manager
signature:**

s 9(2)(a)

**Claire McLellan
Acting Policy Lead
Inland Revenue**

13 May 2026

Quality Assurance Statement

Reviewing Agency: Inland Revenue

QA rating: Meets

Panel Comment:

Inland Revenue's internal quality assurance panel has reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue on 6 May 2026. The panel considers that the information and analysis summarised in the RIS meets the quality assurance criteria.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The Government's Tax and Social Policy Work Programme includes a workstream to simplify and uphold the integrity of the tax system.
2. In 2021, a 39% personal tax rate was implemented on income above \$180,000. This has created a significant difference between the 28% company tax rate and the higher personal rates (30%, 33% and 39%). Rate misalignment creates an incentive for business owners to earn and retain income in companies they control, rather than pay taxable dividends or shareholder salaries.
3. Companies controlled by a few shareholders will often lend money to their shareholders as a way for those shareholders to access company funds. There are a wide variety of shareholder loans, ranging from large formal loans documented on an arm's length basis to the temporary use of drawings for cashflow, or the shareholder simply using the company's bank account as if it were their own money.
4. Shareholder loans are a legitimate and widely used transaction among small businesses and close companies to manage cashflow while providing funds from the company to a shareholder. However, when a shareholder controls the company, the company will often have little incentive to require or enforce commercial lending conditions or mitigate the risk of the shareholder loan balance growing or not being repaid over time.
5. The most recent Inland Revenue data¹ for the income year ended 31 March 2024, shows approximately 119,000 companies were owed a total of nearly \$29 billion by shareholders who were natural persons or trustees. While half of these companies (about 60,000) had outstanding loan balances of less than \$50,000, about 12,000 had maintained a loan balance of more than \$50,000 for at least five years. Some companies had made very large loans – 5,530 companies had outstanding loan balances of more than \$1 million and 543 companies had outstanding loan balances of more than \$5 million.
6. Under current tax rules these loans do not generally result in taxable income for the shareholder. A shareholder loan will only result in tax for the shareholder to the extent that interest on the loan is less than a prescribed interest rate (when a taxable dividend is deemed to arise on the difference), or if repayment is not required and the loan is forgiven. The prescribed interest rate is based on floating mortgage rates and is currently 5.77%.
7. Other countries (the United Kingdom, Canada, Australia and Norway) have stricter tax rules that deem a dividend to arise for a shareholder loan if it has not been repaid within a certain time period. A 2024 OECD working paper recommended countries adopt stricter rules for shareholder loans.²
8. Many New Zealand companies manage shareholder loans responsibly by:
 - ensuring the loan is repaid

¹ See page 4 for an explanation of data limitations.

² OECD Working Paper "Tax arbitrage through closely held businesses: implications for OECD tax systems", 7 October 2024, paragraph 71.

- clearing the loan balance through dividends or shareholder salaries (typically in the following income year, if the company has funds available to do this), or
- documenting longer-term loans on arm's length terms.

This is supported by data³ and feedback from stakeholders.

9. However, Inland Revenue's data also shows other cases where the shareholder loan grows to an unmanageable level, so it is never repaid or taxed when the company ceases. Over a six-year period from 1 April 2019 to early 2025 nearly 15% of all companies removed from the Companies Register appear to have been owed money by their shareholders at the time they were removed (based on their last tax return prior to being removed, which could have been filed some years earlier). These 27,000 companies reported outstanding loans of \$2.28 billion to their shareholders in their last tax return prior to being removed (an average of about \$85,000 per company). About 2,000 of these companies were removed following a formal liquidation process and these companies had a higher average outstanding loan balance of about \$213,000 per company.

What is the policy problem or opportunity?

10. We have identified three separate but related problems. The main problem is that some shareholder loan balances can grow to an unmanageable level, so the shareholder does not have the financial resources (either themselves or through their company paying dividends or salaries) to clear the loan balance. Shareholders can use loans to withdraw funds from their company prior to the business closing down. This can leave creditors out of pocket and lead to failure to collect tax when the company ceases.
11. The second problem is that there is a lack of clarity in the current rules for taxing unrepaid loans when the company ceases. This means that when the shareholder loan balance becomes unmanageable, tax may not be collected, particularly when the lending company ceases and is removed from the Companies Register. While current rules tax a shareholder loan when the loan is formally forgiven, this taxing point is often uncertain and may be many years after the company has ceased, at which stage it is impractical to collect tax on the loan. For example, it can be unclear when exactly the tax liability arises and it will be difficult to track down and collect tax from the shareholder many years after the company has ceased.
12. The final problem is there can be inadequate record keeping to support tax compliance when a company is removed from the Companies Register. This record-keeping inadequacy arises not only in relation to shareholder loans, but also in calculating the amounts treated as taxable dividends under existing rules.
13. For shareholder loans, there is often poor data quality for measuring and reporting shareholder loan balances to Inland Revenue, particularly as companies begin to fail.
14. Inadequate record keeping also causes issues when a company ceases. For example, the existing tax rules allow available subscribed capital and net capital gains to be distributed tax-free (instead of counting as a taxed dividend) when a company is dissolved. There are currently no requirements to keep annual records of these amounts, which means that many companies do not keep adequate and timely records throughout their life. The relevant amounts can be difficult to calculate or verify at the

³ About 33% of all companies that reported an outstanding loan balance in a particular year had no outstanding loans by the end of the following tax year.

time the company ceases because this may be many years after the relevant transactions took place. Inland Revenue's operational statement OS 22/01⁴ makes it clear that a company that does not have records to substantiate the relevant amounts is at risk of losing the benefit of those amounts.

Affected stakeholders

15. The policy options impact shareholders who have borrowed from their companies. Depending on the policy option, it may only impact a subset of these taxpayers, such as shareholders in companies that had outstanding shareholder loan balances at the time the company ceased. Accountants and other tax advisors to the affected taxpayers will also be impacted as they assist their clients to comply with the new rules.
16. Most of the companies with shareholder loans are controlled by one or two New Zealand shareholders who are natural persons or trustees. The average number of shareholders with a loan for each lending company was 1.4 shareholders. The main industries with outstanding shareholder loans were rental, hiring and real estate services (26% of the total value of loans), agriculture, forestry and fishing (18%), and construction (11%).
17. The affected stakeholders were consulted on the problem and policy options (see consultation section below). They provided examples of commercial and practical reasons why shareholder loans arise that are not motivated by any potential tax benefit (such as to manage temporary cashflow needs or seasonal trading conditions or to allow the shareholder to re-invest a realised capital gain prior to winding-up the company). They consider the current rules already encourage loan repayment and shareholders generally try to repay their loans because that is best practice and minimises overall costs.
18. Most stakeholders disagreed that there was an unintended tax advantage or unfairness from using shareholder loans aside from a limited number of cases where the loan was never repaid prior to the company ceasing. In response to this, officials refocused the problem to mitigating the risk of shareholder loan balances never being repaid or taxed, particularly at the time the company ceases.

What objectives are sought in relation to the policy problem?

19. The policy objective is to encourage companies to manage their shareholder loan balances to mitigate the risk of the balances never being repaid or taxed. This will result in the loans being replaced by taxable dividends or salaries or the company having more funds available to pay creditors or invest into the company's business activities.

What consultation has been undertaken?

20. In September 2025, targeted consultation was undertaken with 10 private sector advisory firms. These stakeholders supported taxing shareholder loans when the lending company ceases (Option 5). However, most opposed a potential option of requiring loans to be repaid within a time limit (Option 2). Stakeholders considered generous transitional rules would be required because the proposed time limit would create cashflow pressures and financial hardship for businesses that may already be struggling.

⁴ [Available Subscribed Capital record-keeping requirements](#)

21. In response to this feedback, Inland Revenue made changes to the options that were publicly consulted on. The main change was to exclude existing loans from the time limit option (Option 2), so, if progressed, that option would only apply to new loans following the issues paper release date.
22. 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.
23. There was broad support for taxing outstanding loans when a company is removed from the Companies Register (Option 5). In response to submissions a longer grace period of six months was adopted to accommodate ongoing companies who may have been inadvertently removed and then restored to the Companies Register.
24. Some stakeholders consider the failure to repay loans may be due to poor compliance capability or lack of understanding of the tax costs and that guidance, education and Inland Revenue compliance activity would better address the problem compared to new regulations.
25. Most stakeholders were opposed to a potential time limit on repaying new loans (Option 2) because they consider it would be significant overreach, unduly impacting ordinary practices and compliant shareholders who will eventually repay the loan. For example, it could apply when a company was temporarily unable to pay a salary or dividend due to difficult commercial conditions. They consider 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.
26. Some suggested using higher de minimis thresholds (ranging from \$100,000 to \$2.5 million) or longer time limits (such as three, five or seven years after the tax year the loan was made), but most still considered that imposing any time limit would be poorly targeted at the problem of loans that are unlikely to ever be repaid.
27. Some submissions suggested excluding loans made on commercial terms from the time limit (Option 4), although others noted that Australia's rules for requiring loans to be documented with commercial terms were complex. Submissions 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 only be distributed tax-free on liquidation under current law).
28. Some submissions suggested a targeted rule should be developed instead of a time limit. In response officials considered a new option that focused on high-risk loans that appear unlikely to be repaid (Option 3). This option would need significantly more development and consultation to assess whether it would be worth implementing, therefore it is not recommended for progression as part of the current regulatory process.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

29. **Efficiency:** The options should minimise the deadweight economic loss of the tax system (that is, the cost of collecting the tax revenue that is over and above the tax revenue raised). Where possible, the tax rules should try to minimise unintended distortions on economic decisions, to ensure resources are efficiently allocated to their best use.
30. **Equity:** The options should ensure taxpayers in similar situations or with similar levels of income have similar tax outcomes (horizontal equity) and that taxpayers on higher incomes pay more tax in a way that reflects the Government's objectives for the progressivity of the tax system (vertical equity).
31. **Minimise complexity and compliance costs:** Complexity and compliance costs should be minimised so that tax laws are easy to comply with and difficult to avoid. This encourages voluntary compliance over time.
32. **Integrity:** The options should reduce the risk of shareholder loan balances never being repaid or taxed. They should also aim to minimise risks to creditors that arise when companies lend to shareholders and then become unable to pay creditors, including Inland Revenue.
33. Any options that would improve equity and integrity are likely to come at the cost of reduced efficiency and increased complexity when compared to the status quo. Integrity measures tend to change behaviour, which can impose efficiency costs and increase complexity, which may then increase taxpayers' compliance costs. However, new rules could also create more certain tax obligations for shareholder loans and ensure shareholder loans are repaid or managed better.

What scope will options be considered within?

34. The scope of the options considered have been limited to tax policy options that focus on reducing the risk of shareholder loans not being repaid or taxed, particularly when the company ceases. We have not considered any options outside tax policy (such as company law reform or stronger enforcement of the existing "reckless trading" rules to impose liabilities on company directors).
35. Inland Revenue considered some options that address different issues earlier in the policy process. These options included increasing the prescribed rate of interest that companies charge shareholders and providing Inland Revenue with a greater ability to prevent companies with outstanding loans from being removed from the Companies Register. These options would not directly reduce the main risk so have not been analysed further in this RIS.
36. Non-regulatory options, such as education and increased Inland Revenue compliance activity were considered. However, officials consider non-regulatory options are unlikely to adequately address the problem on their own. All the regulatory options would be supported by education and increased compliance activity in any case and an option to improve record keeping (Option 6) has been considered as a way to support the other options.
37. We have considered the approaches taken by Australia, Canada, Norway and the United Kingdom to identify and refine the scope of the options.

What options are being considered?

38. The options are not mutually exclusive, which means a combination of options could be implemented if that best achieved the objective.

Option 1 – Status Quo

39. This option involves continuing with the existing rules. As described in paragraph 6, under the current rules, a shareholder loan will only result in tax for the shareholder to the extent that interest on the loan is less than a prescribed interest rate (when a taxable dividend is deemed to arise on the difference), or if repayment is not required and the loan is forgiven.
40. In addition, a lack of clarity in current rules means that when a company is removed from the Companies Register, the taxing point for unrepaid loans is often uncertain and may be many years after the company has ceased, at which stage it is impractical to collect tax on the loan.
41. The status quo will not achieve the policy objective of encouraging companies to manage their shareholder loan balances to mitigate the risk of the balances never being repaid or taxed.

Option 2 – Time limit for repaying new company loans to shareholders

42. This option involves a time limit for repayment, so that loans made by a company to a shareholder would be treated as a dividend if the shareholder has not repaid the loan within 12 months after the end of the income year they were made. It is based on time limit rules which apply in the United Kingdom and Canada.
43. No additional tax would arise if the loans were repaid within the time limit or if the company's total lending to shareholders remains below a de minimis (such as \$50,000). The de minimis is intended to exclude ordinary business practices such as temporary use of drawings for cashflow.
44. To mitigate the impact on existing lending arrangements, the option could exclude existing loan balances and only apply to new loans.
45. This option aims to change the behaviour of the affected taxpayers and their advisors, so they make regular decisions at the end of each income year to repay or reduce the size of shareholder loans. It would impose compliance costs on all lending companies who would need to monitor and regularly reduce their loan balances to ensure they remained below the de minimis. It could lead to more funds being retained in the company (which it can use it to pay creditors or for investment) or to the loans being replaced with taxable dividends or salaries (increasing tax collection).
46. As described earlier in paragraph 25, most stakeholders were opposed to a time limit because they consider it would be significant overreach, unduly impacting ordinary practices and compliant shareholders who will eventually repay the loan. If these concerns were to eventuate, the economic impact of this proposal could be material; at the same time, it is difficult to estimate.

Option 3 – Targeted intervention for loans at risk of not being repaid

47. Some submissions suggested that a new option be developed as an alternative to a broad time limit (Option 2 above) that is better targeted at the problem of loans that are not ultimately repaid.

48. This rule could identify such loans using information such as loan size, increasing balances, and company tax debts. The new process could include a rebuttable presumption so the affected shareholders could be excluded from the rule if they provide Inland Revenue with sufficient evidence of their ability to repay the loan.
49. An objective of the targeted rule would be to minimise the impacts on the ordinary commercial use of shareholder loans, which are likely to be repaid. This would minimise compliance costs and the need for most of the affected companies to adopt new practices.
50. 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, but this could have a positive impact if it limits losses on company debts owed Inland Revenue and other creditors.
51. 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.
52. Option 3 would need significantly more policy development and consultation to assess its potential effectiveness, costs and benefits. Therefore, it is not recommended for progression as part of the current regulatory process.

Option 4 – Requiring loans to be documented with commercial terms

53. This option would require company loans to shareholders to be documented on commercial terms (such as minimum interest rates and a maximum time for repayment). Undocumented loans would be taxed as dividends.
54. Australia's rules apply this type of approach and require loans to be documented within 10 months of the end of the tax year the loan was made (when the company's tax return is due). For loans that have been properly documented, Australia effectively provides a seven-year time limit to repay the loans up to a 25-year time limit if the loan is secured over land. Australia's rules also include many other complex exceptions.
55. Some submitters suggested New Zealand should adopt Australia's rules, although submissions also cautioned that Australia's rules were complex.
56. Compared to the status quo this option could improve integrity. However, this option is expected to be less effective at addressing the problem when compared to other options. It would impose compliance costs on all loans but because it would still allow long time periods for repayment, it may do little to reduce the risk of loan balances becoming unmanageable, so they are not ultimately repaid. Requiring adequate documentation for the wide range of lending arrangements including informal use of drawings could be complex and is likely to lead to poor compliance by taxpayers and administrative issues for Inland Revenue.

Option 5 – Tax shareholders on outstanding loans six months after company is removed from the Companies Register

57. Under this option, when a company is removed from the Companies Register, any outstanding shareholder loan amount (that is, the amount owed by a shareholder to the company) would result in taxable income for the shareholder six months following the company's removal from the Register. This provides an earlier and more certain taxing point for loans that will not be repaid,⁵ which would support tax compliance and improve Inland Revenue's ability to collect tax. This could also encourage shareholders to clear any outstanding loan balances before their company is wound up. This means tax would be collected on dividends or shareholder salaries, or the loan repayment could provide the company with funds to pay creditors.
58. Submissions broadly supported this option. In response to submissions, the option was amended so the shareholder would be taxed six months after the date the company is removed (rather than three months). The longer six-month period is intended to provide an adequate grace period so the rule would not apply to ongoing companies accidentally removed and then reinstated.
59. A limitation of this option is that its effectiveness depends on Inland Revenue having accurate data and being aware that the company being removed from the Register has an outstanding shareholder loan. Inland Revenue's data on shareholder loans is self-reported data from tax returns. The accuracy of this data depends on the forms being correctly completed by taxpayers with full and complete disclosure of the relevant loans. Inland Revenue can apply penalties on taxpayers who fail to report relevant tax information or pay the correct amount of tax. Another limitation is that if the shareholder's business has failed, they may no longer have the financial resources to pay tax at the time the company is removed, which may lead to increased tax debt and impairment of this debt.

Option 6 – Improving record keeping

60. This option involves Inland Revenue identifying low-cost ways to improve record keeping of shareholder loans and other relevant information to support tax compliance when a company ceases. This option would be implemented by using Inland Revenue's existing ability to prescribe forms so does not require new legislation. Inland Revenue already collects annual information on the amounts companies owe to their shareholders, directors and close relatives of shareholders. Option 6 would include improving the quality of these records as well as collecting new information. It could improve equity and tax integrity by ensuring more companies and shareholders report income correctly.
61. Submitters were generally supportive of the need for improved record keeping, especially in relation to available subscribed capital (ASC) and available capital distribution amounts (ACDA), which are amounts that can be distributed tax free (instead of counting as a taxed dividend) when a company is removed from the Companies Register.
62. As part of this option, the process for companies seeking a "no objection" letter from Inland Revenue has already been improved, with the introduction of a new form. A company seeking removal from the Companies Register must provide the Companies Office with a "no objection" letter from Inland Revenue. The new form is intended to set

⁵ As described in the problem section, the current tax rules tax loans when they are formally forgiven but this may be many years after the company ceases, by which point it is impractical to collect tax.

clear expectations around business cessation including repayment or taxation of shareholder loans.

How do the options compare to the status quo?

	Option 1 – Status Quo	Option 2 – Time limit for repaying company loans to shareholders	Option 3 – Targeted intervention for loans at risk of not being repaid	Option 4 – Documenting loans on commercial terms	Option 5 - Tax shareholders on outstanding loans six months after company is removed from Register	Option 6 – Improving record keeping
Efficiency	0	-	0	-	+	0
Equity	0	+	+	+	+	+
Minimise complexity / compliance costs	0	--	--	--	-	0
Integrity	0	++	+	+	++	+
Overall assessment	0	0	+	-	++	+

- ++ much better the status quo
- + better than the status quo
- 0 about the same as the status quo
- worse than the status quo
- much worse than the status quo

63. Despite the overall assessment of Option 3 being better than the status quo, it is not recommended for progression at this time because it would need significantly more policy development and consultation to assess its potential effectiveness, costs and benefits.

What options are likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

64. A combination of Option 5 (taxing shareholders on loans six months after the lending company is removed from the Companies Register) and Option 6 (improving record keeping) is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits.
65. Option 5 would improve tax collection, integrity and equity by ensuring shareholders have a clear tax liability on the value of outstanding loans six months after the lending company has been removed from Companies Register.
66. Option 6 would support this by helping companies maintain the relevant information to support their tax compliance with shareholder loans and when the company ceases. It would also improve the information that Inland Revenue holds so it can better monitor issues and promote compliance.
67. The preferred options would primarily affect companies that cease and are removed from the Companies Register with outstanding shareholder loan balances. Option 6 could potentially require all companies to consider how they will maintain the relevant

records, but Inland Revenue will specifically look for ways to improve record keeping while minimising additional compliance costs.

68. The compliance costs are outweighed by the benefits of improved equity, integrity and increased tax revenue. The cost-to-benefit ratio should not change over time because both the costs and benefits are expected to remain relatively consistent.

Is the Minister’s preferred option in the Cabinet paper the same as the agency’s preferred option in the RIS?

69. Yes

What are the marginal costs and benefits of the preferred options?

Affected groups (identify)	Comment	Impact	Evidence Certainty
Additional costs of the preferred options compared to taking no action			
<p>Regulated groups <i>Lending companies removed from the Companies Register and their shareholders</i></p>	<p>Increased tax collected on outstanding shareholder loans when a company is removed from the Companies Register. (ongoing).</p>	<p>\$146m over the forecast period 2025/26 to 2029/30 and \$38m per year subsequently (including impairment of tax debt).</p>	<p>Low. The actual value of taxed shareholder loans may be different to the estimated values in future years. The estimates are based on Inland Revenue data from earlier income years and may not reflect future years. Reporting of the data by the affected companies can be poor. There is a risk future behaviour may change as some non-active companies may try to remain on the Companies Register.</p>
<p>Regulated groups and their tax advisors, accounting software providers</p>	<p>Compliance costs Learning about and implementing new requirements (one-off). Complying with new tax rules when the lending company ceases (one-off). Record-keeping costs may increase for some companies that do not currently keep the required records (ongoing).</p>	<p>Low. Inland Revenue data indicates about 4,500 companies with outstanding shareholder loans are removed from the Companies Register each year. Option 5 will require shareholders to include the outstanding value of the loan as income in their next tax return. Option 6 could potentially require all companies to consider how they will maintain the relevant records.</p>	<p>Low. Impacted group of companies may be under-reported due to data issues mentioned above.</p>
<p>Regulators <i>Inland Revenue</i></p>	<p>Administration costs one-off and ongoing</p>	<p>\$0.5m one-off capital cost of IT systems changes in 2026/27.</p>	<p>Medium Estimated costs could change as requirements are</p>

Affected groups <i>(identify)</i>	Comment	Impact	Evidence Certainty
	Increased impairment of tax debt which cannot be collected (ongoing)	<p>\$1.75m ongoing operating costs over forecast period 2025/26 to 2029/30 and \$0.45m per year subsequently.</p> <p>Tax debt impairment is estimated to be \$6m over the forecast period and then \$2m per year subsequently.</p>	developed or if the new rules require more resources to administer in practice.
Others Companies Office	Fewer companies may choose to voluntarily deregister from the Companies Register as doing so may now have tax costs for their shareholders. This could lead to more non-active companies on the Register. (ongoing)	Low. Data from a 6-year period showed only 10,000 companies were removed at request of the shareholders, compared to 225,000 total companies being removed.	Medium We have past data on lending companies that were removed and why they were removed but do not know how much new rules could alter this.
Total monetised costs		<p><i>Increased tax collected from shareholders:</i> \$146m over the forecast period 2025/26 to 2029/30 and \$38m per year subsequently.</p> <p><i>Inland Revenue costs:</i> \$0.5m one-off capital cost of IT systems changes in 2026/27.</p> <p>\$1.75m ongoing operating costs over forecast period 2025/26 to 2029/30 and \$0.45m per year subsequently.</p> <p>Tax debt impairment is estimated to be \$6m over the forecast period and then \$2m per year subsequently.</p>	Low
Non-monetised costs		Low	Low
Additional benefits of the preferred option compared to taking no action			
Regulated groups	New rules could promote more prudent management of shareholder loans; better accounting practices and more cash being retained in companies reducing risk of business failure (ongoing)	Low	Low. Unclear if taxing loans six months after the lending company ceases to exist will change current business practices.
Government	Increased Crown tax revenue (ongoing)	\$146m over the forecast period 2025/26 to	Low. The actual value of taxed shareholder loans may be

Affected groups (identify)	Comment	Impact	Evidence Certainty
		2029/30 and \$38m per year subsequently (including impairment of tax debt).	different to the estimated values in future years. The estimates are based on Inland Revenue data from earlier income years and may not reflect future years. Reporting of the data by the affected companies can be poor. There is a risk future behaviour may change as some non-active companies may try to remain on the Companies Register.
Regulators Inland Revenue	Improved record keeping and information held by Inland Revenue to support tax compliance (ongoing)	Medium	Low. Regulated groups currently have poor record keeping so unclear how much this will improve.
Company creditors Lenders, Inland Revenue, suppliers and employees	New rules could promote more prudent management of shareholder loans and encourage shareholders to repay loans prior to the company ceasing. This could increase cash available to pay creditors (ongoing)	Low	Low. Unclear if taxing loans six months after the lending company is removed will change current business practices. If the loans are cleared by paying a dividend or shareholder salary, then there could be less company funds to pay creditors.
Others Other businesses and taxpayers	Improved horizontal and vertical equity and perceptions of the integrity and fairness of the tax system (ongoing)	Low	Low. Submitters considered the proposed changes were fair, but the expected improvements are modest in the context of the overall tax system.
Total monetised benefits		\$146m over the forecast period 2025/26 to 2029/30 and \$38m per year subsequently (including impairment of tax debt).	Low
Non-monetised benefits		Low	Low

Section 3: Delivering an option

How will the proposal be implemented?

70. Option 5 will be implemented through legislative amendments to the Income Tax Act 2007, with application to companies removed from the Companies Register from 4 December 2025.
71. Option 6 can be implemented by using Inland Revenue's existing ability to prescribe forms so does not require new legislation.
72. The main delivery risks we have identified are:
 - a. The affected population of companies and shareholders will often have poor records for shareholder loan balances in the period leading up to the company ceasing. Option 6 (improving record keeping) aims to reduce this risk. It can also be partially mitigated by Inland Revenue making assessments based on the information it has available, which can then be amended by the taxpayer if they have more accurate information. Inland Revenue will also publish guidance materials and work with tax agents and advisors and software providers who will be critical for promoting compliance.
 - b. There is a risk that companies may try to delay when they are removed from the Companies Register to avoid tax triggering liabilities. This could be mitigated for those companies that have tax debt as well as shareholder loans, by Inland Revenue compliance activity focusing on managing company tax debt. If the company fails to repay tax debt, these companies can be liquidated by Inland Revenue, which would include seeking repayment of any shareholder loans. Regular monitoring and enforcement by the Companies Office could also mitigate this risk. This ranges from removing non-active companies from the Register, to imposing liabilities on directors when they have allowed reckless trading by the company (for example, trading while insolvent).
 - c. The record-keeping changes (Option 6) could potentially require all companies to consider how they will maintain the relevant records. Inland Revenue will seek to minimise additional complexity or compliance costs when identifying improvements.
73. It is necessary to apply the new rule for companies removed from the Companies Register (Option 5) to any company removed from date the consultation document was published (4 December 2025). Otherwise, some company owners could have responded to the proposed reform by deregistering their company before the new rule is implemented to avoid it applying to their loans. Because the rule generates taxable income for the shareholder six months after the date the company was removed, this means the earliest date income may arise is 4 June 2026.
74. Inland Revenue expects to provide operational guidance including new webpages, tax return guidance, presentations and communications to tax agents, and legislative commentary to explain the new rules. Inland Revenue will also update its internal systems to track key measures for monitoring the effectiveness of the new rules (see next section).
75. The administrative costs for Inland Revenue are estimated to be relatively low (\$0.5 million one-off capital cost of IT systems changes in 2026/27 and \$0.45 million per year

ongoing operating costs) compared to the compliance and tax revenue benefits. Clearer rules and improved record keeping are expected to improve compliance and make enforcement actions easier for Inland Revenue to apply.

How will the proposal be monitored, evaluated, and reviewed?

76. **Monitoring:** The effectiveness of the new rules will be monitored by:
- Measuring the number and percentage of companies removed from the Companies Register that have outstanding loans to shareholders, and whether this is less than before the reforms, as well as whether the value of these loans has decreased. Option 6 will enable Inland Revenue to capture more information about loans when companies cease, improving its ability to monitor these outcomes.
 - Assessing whether the outstanding shareholder loan balances are smaller than pre-reform years, and whether more of the loan balances are reducing over time rather than increasing.
77. **Review:** Inland Revenue will monitor changes in the performance indicators mentioned above. Inland Revenue will also conduct regular meetings and maintain ongoing communication channels with key stakeholder groups (tax advisors to the affected companies) to seek their feedback on the costs and benefits of the measures and how it has changed taxpayer behaviour.
78. More generally, policy officials will maintain strong communication channels with Inland Revenue compliance staff who administer the new rules and external stakeholders in the tax advisory community. If problems emerge, they will be dealt with either operationally, or by way of legislative amendment if agreed by Ministers and Parliament.