Shareholder Loans in IRD Sights

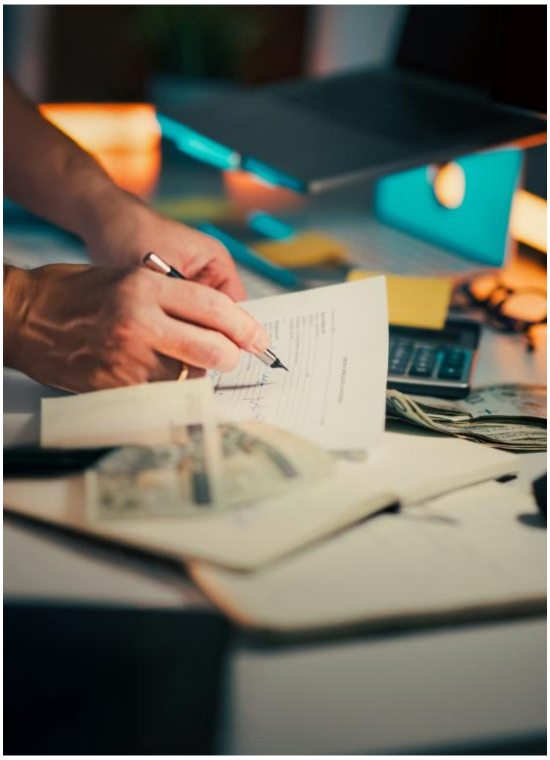
IRD is seeking public feedback on proposed tax changes for loans made to shareholders. This could have significant implications for SME shareholders who have chosen not to pay themselves a shareholder salary or dividend.

Why is IRD Targeting Shareholder Loans?

IRD is concerned that shareholders are not paying their fair share of tax, when they borrow company funds for other purposes. This concern is particularly related to closely held companies, as sole traders, partnerships and look through companies pay tax at the owner's marginal tax rates. Widely held companies do not typically distribute profits by way of loan.

A shareholder loan or overdrawn current account arises when funds are drawn out by the shareholder without being offset by repayments, salaries or dividends.

Another concern raised by IRD is when a shareholder withdraws funds prior to a company closing down, leaving creditors out of pocket.



Current Tax Treatment of Shareholder Loans

If a shareholder borrows from the company, the company charges interest at FBT prescribed interest rates or some other commercially based rate. Interest income is taxed at the company tax rate of 28%. If the company doesn't charge interest, then the foregone interest is treated as a deemed dividend. Dividends are taxed at the shareholder's marginal tax rate (up to 39%) but may have imputation credits and RWT of up to 33% attached.

If the shareholder's loan is forgiven by the company or deemed unrecoverable, the loan amount is taxable income to the shareholder either as a dividend or under the financial arrangement rules and taxed at the marginal tax rate of the shareholder at the time of forgiveness.

When a company is liquidated, a company will usually declare dividends or distribution to shareholders to offset remaining loans or current account balances. Distributions from capital gains can be made tax free on liquidation. If a liquidator finds a company has insufficient funds to pay its creditors on winding up, there are mechanisms to enable the liquidator to claw back transactions, such as loans made to shareholders while insolvent.

The removal of a company from the Companies Register doesn't result in income under financial arrangements because the loan becomes the property of the Crown, and it can take years for the loan to be consider unenforceable. The lack of clear data on unenforceable loans makes it difficult for IRD to assess whether the shareholder has complied with the requirement to declare the taxable income.

How is IRD Proposing to Tax Shareholder Loans?

Time Limit for Repayment

IRD proposes a 12-month time limit on new lending from 5 December 2025 for total amounts over $50,000 per company. It would apply to close held companies, where the shareholder is a natural person or a trust. If the loan is not repaid by the end of the tax year after the 12-month period, the loan will be treated as dividend income and tax at the shareholder's marginal tax rate in that income year.

Even if IRD taxes the loan as a dividend, it doesn't cancel the debt. You still need to repay the company. This means you could face a double hit: first, paying income tax on the amount as if it were a dividend, and second, still being legally obligated to repay the loan to the company. For shareholders who are already under financial pressure, this creates a cashflow squeeze and increases the overall cost of borrowing from the business.

Many small business owners choose not to pay themselves a salary or dividend, instead drawing funds as shareholder loans to manage cash flow or reinvest in the business. Under the proposed rules, any loan over $50,000 that isn't repaid within 12 months could be taxed as a dividend—even though you still owe the company the money. This creates a double cost: paying income tax on the loan amount while also repaying the loan itself. For businesses operating on tight margins, this could put real pressure on cash flow and make borrowing from your own company far less attractive.

Shareholder Loans Treated as Income on Winding Up

IRD proposes that outstanding shareholder loan balances be treated as income to shareholders on winding up.

This could be an additional blow to shareholders who have made the difficult decision to wind up their companies and can't afford to pay the tax when they have lost their revenue stream.

Record-keeping

IRD proposes additional reporting requirement for Available Subscribed Capital (ASC) and Available Capital Distribution Amount (ACDA). ASC is the money shareholders have invested in the company in the form of issued shares. It's the original capital contributed by owners, not profits earned by the business. When you return this money to shareholders (e.g., during liquidation), it can often be paid back tax-free, provided you've kept good records.

ACDA is a newer concept IRD wants to introduce. It's capital gains arising from the sale of an asset like investments or property, plant and equipment which is not trading property. ACDA can be distributed tax-free as part of a liquidation.

The proposal would require companies to maintain memorandum accounts for the life of the company or be deemed to have nil ASC or ACDA balances. Without clear records, IRD could assume balances are zero and charge tax on those shareholder payments.

How Can You Make a Submission?

Read more about the proposed changes in IRD's issues paper[i]. Anyone can make a submission on the issues paper. You can make your submission by email to policy.webmaster@ird.govt.nz with "Improving taxation of loans made by companies to shareholders" in the subject line, or by post to:
Improving taxation of loans made by companies to shareholders
C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140
Submissions must be lodged by 5 February 2026.

Further Steps for Companies to Take

Bear in mind that these proposed tax changes are not part of Tax Law yet, so they are subject to change after IRD has reviewed submissions. Consider carefully any new loans you are making to shareholders from companies, and whether they can repay those loans within 12 months, or whether you should be declaring dividends or salaries instead.

Start keeping clear records of shareholder contributions, Available Subscribed Capital (ASC) and capital gains, Available Capital Distribution Amount (ACDA), in preparation for the disclosure requirement.

Contact us as JDW Chartered Accountants Limited for further advice on how you can manage your shareholder loans.

- *Serena Irving*

Serena Irving is a director in JDW Chartered Accountants Limited, Ellerslie, Auckland. JDW is a professional team of qualified accountants, business consultants, tax advisors, trust and business valuation specialists.

An article like this, which is general in nature, is no substitute for specific accounting and tax advice. If you want more information about the issues in this article, please contact your adviser or the author.

[i] https://www.taxpolicy.ird.govt.nz/consultation/2025/taxing-company-loans-to-shareholders