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# Small business Covid loan defaults soar, $65m already written off by IRD

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The Inland Revenue Department has written off over $65 million of bad debt tied to the Covid-era Small Business Cashflow (Loan) Scheme, and that figure is expected to climb significantly.

Of $2.36 billion in loans issued, $748m remains unpaid, $447m of which is in default.

Insolvency experts warned the defaults will help to fuel company liquidations, already at a 15-year high and heavily driven by IRD enforcement.

Write-offs and defaults climbed quickly last year as the majority of the scheme's debt came due for repayment.

The figures are as of October 21, 2025. The IRD released the total for loans in default to the *Herald* late last year, but declined to release the total for write-offs outside the Official Information Act process.

The loans were originally issued on concessionary terms, with no interest for the first two years, and 3% interest per annum for the balance of their five-year terms.

The reasons for the write-offs include company dissolution, serious hardship, liquidation, bankruptcy, and the final distribution of estates.

IRD's group lead - micro business, Raelene Stewart, told the *Herald* that the department holds no information regarding the effect of the defaulted loans on the number of insolvencies.

The cashflow loans form part of a wave of over $9b in debt owed by New Zealand companies and sole traders to the IRD, much of it built up through the pandemic years when the agency took an expressly lenient approach to debt collection.

In addition, tens of billions of dollars' worth of extraordinary government grants and loans, including the cashflow loan scheme, helped to keep sole-trader bankruptcies and company liquidations artificially low through the pandemic and its immediate aftermath.

Combined with a recent, prolonged economic downturn and recession, the after-effect of this extraordinary period of government help and leniency has been a pronounced jump in company insolvencies.

The cashflow loans were unsecured and made to 129,000 small and medium sized businesses and sole traders claiming significant loss of business because of the pandemic and related restrictions. It was a high-trust model with upfront due diligence dispensed with to allow for speed.

Recently published Ministry of Business, Innovation and Employment (MBIE) figures show that company liquidations in 2025 hit their highest level since 2010. And company removals from the New Zealand Companies Office were also at their highest in over a decade.

Daniel Zhang, a licensed insolvency practitioner and partner at McDonald Vague, said that given the bulk of the small business loan debt came due in mid-to-late 2025, it's reasonable to expect that many loans in default will now tip into write-offs for the IRD.

"The penalty interest rate is going to start to grab people's attention, where before they might have just ignored that debt ... and I think there's some merit in the view that if they [borrowers] could afford to pay that loan they would have paid it off by now."

Zhang said recent inquiries to his firm have come from parties with only business loan scheme debt remaining and no further assets: "In liquidation, that debt is likely going to be written off by the IRD if there is no other avenue for recovery from the liquidation".

Steven Khov, partner at insolvency consultancy Khov Jones, said that in most cases, companies with small business loan scheme debt in default will have other debt they're managing too, "a default will typically happen when a business is in distress, these will be business owners really struggling with cash flow".

He expects the number of small business cashflow loans in default to help drive insolvencies this year, but he didn't think they would be the main influence: "They'll have an impact, no doubt. Whether it's the main influence, I would say probably not. That's going to be tax owed to the IRD in general, especially PAYE and GST."

The IRD's Stewart said that normal debt recovery processes apply to the small business loan scheme, including contacting customers to set up repayment plans and deductions from the customer's bank account or salary and wages. On a case-by-case basis, she said other legal actions are taken, including liquidation, bankruptcy and prosecution for cases involved with fraud.

Borrowers that renegotiate repayment continue to pay the below-market interest rate of 3% interest; these renegotiated loans are not considered to be in default.

Last year, the IRD spent $60,000 on advertising and marketing campaigns to raise awareness among small business loan scheme customers of the five-year loan term expiry and to encourage repayment.

It has also targeted these customers through a telephone calling campaign which began a year ago.

The Government says it is intent on reducing the debt owed to the IRD and provided extra funding for compliance and debt collection through the last two Budgets.

Revenue Minister Simon Watts previously told the *Herald* that "companies that aren't viable need to be wound up. The longer insolvent trading continues, the fewer assets will be available to cover debts to employees and suppliers".

"Inland Revenue won't retreat from making hard decisions to secure overdue payments and liquidations will continue to be the option of last resort to protect other businesses and individuals."