

Briefing note

Reference: BN2023/174

Date: 2 June 2023

To: Revenue Advisor, Minister of Revenue – Jason Batchelor
Private Secretary, Minister of Revenue – Helen Kuy
Revenue Advisor, Associate Minister of Revenue – Harper Burtenshaw

From: Steve Mack

Subject: **Sales of controlled companies**

Background

1. You have asked us for information on how frequently owner-managers sell their assets in the HWI population.
2. We have considered this by analysing the turnover rate of shares in non-portfolio entities and significant holdings in listed companies for the high-wealth population. Although this data can sometimes be used to estimate an average holding period; given the short testing period, small sample size, and high variability of individual sales, we consider it is not possible to derive a credible estimate of holding period from this data.

Non-portfolio entities average turnover rates

3. Non-portfolio entities are unlisted companies worth at least \$1 million in which the HWI's family, including trusts, owns at least 10%. These closely-held companies are those where the controlling shareholders frequently manage and operate the company.
4. From income years-ended 2017 to 2021, only 12% of entities were sold down to any degree during the period (between 2.6% and 3.4% each year), with 8.3% being disposed of completely (from 1.1% to 2.2% each year). In 27% of cases, the family increased their holding of the respective entity (including first-time acquisitions), while 62% of holdings remained unchanged during the five-year period.

Significant holding in listed companies average turnover rates

5. Significant holdings of listed companies are holdings of shares worth at least \$1 million in listed companies when the shareholding is disclosed as belonging to an HWI in the financial statements or stock exchange records for the company. This may be when the individual holds at least 5% of the shares of the company, or when the individual is a substantial office-holder of the company. Because of this, in many cases the HWI will not control the company and their influence over the company may be limited to that of an office holder of the company.

6. For the income years-ended from 2017 to 2021, between 29% and 32% of holdings of the high-wealth population showed some reduction in shares each year (average 30%) and 7% and 16% showed a complete disposal of shares each year (average 11%).

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