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s9(2)(a)

Briefing note

Reference: BN2021/532

Date: 8/11/2021

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From: Matt Nolan, Principal Policy Adviser

Subject: **Representativeness of the wealth project population**

The wealth project population

1. The purpose of this note is to outline whether the High Wealth Individual (HWI) Research project population is representative of the Top 0.1% of the wealth distribution and the economic sectors they operate in.
2. The group that was selected for the project was based on environmental scanning undertaken by Inland Revenue over the past 20+ years. This environmental scanning involved monitoring large transactions or other indications that individuals had significant wealth holdings, using both public information and the departments tax data. This list was then curated to remove tax non-residents and deceased persons and define the population in a way consistent with household-based income analysis.
3. This selection is non-random, and as a result the sample is not expected to be representative of the population of all HWIs. This approach was taken as it is not possible to build a representative sample, since there is no information available to determine the full population of HWIs to sample from.
4. As a result, there will be HWIs that are missing from the group, and there is no way to definitively state that the selected group is representative of the Top 0.1% of the wealth distribution.
5. However, the selected individuals are HWIs. As a result, the research project is focused on understanding the *population of already identified HWIs* in order to

construct information about economic measures of income and wealth for this group.

- Understanding the asset and broad industry makeup of this group can help IRD form a view on how representative this group is. Furthermore, a richer understanding of the makeup of the group will allow IRD to indicate and correct for clear biases that may exist when comparing the income, wealth and tax paid by this group to the population generally.

Sectoral representativeness

- The extent to which this group is representative of different industry sectors can be tested by considering the main industry of each individual in the identified population, based on internal information, and the consequent sector shares of individuals in each industry sector.
- As no information has been collected from individuals at present and given there isn't available information about all HWIs, it is impossible to be definitive about the representativeness of asset classes, or industry of involvement, for the selected participants.
- However, property and land-based industries are highly represented in the data – at higher rates than both the employment share and GDP share of these industries in the general economy.
- Given this representation, the population selected for the wealth project will be able to provide insights relating to economic measures of income for those who have significant involvement in property and primary industries.
- Figure 1 compares the share of GDP, employment, and the main activity of HWIs by high level economic sectors based on ANZSIC industries. To protect privacy, the classifications shown in the below graph is aggregated to the primary (raw materials), secondary (manufacturing and distribution), and tertiary (goods sales and services) sectors respectively. Property services is shown separately from other tertiary industries.

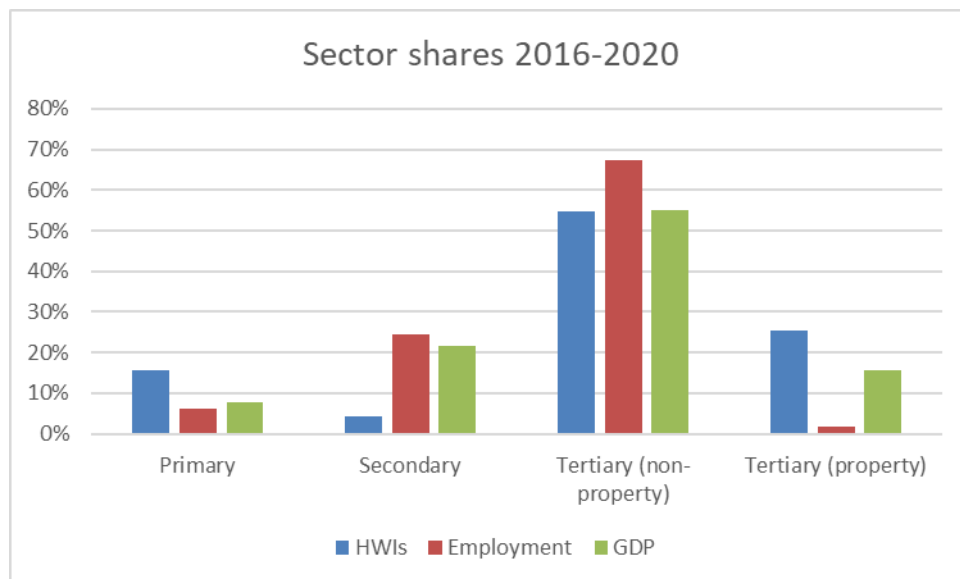


Figure 1

- If the activities of the HWI population were in proportion to the activities of the New Zealand population as a whole, then we would expect the share of individuals involved in these activities to be similar to either the employment or GDP share.

13. However, there are clear reasons why this should not be the case – given that there are certain activities (investment, property ownership) that would be expected to have greater involvement by those who accumulate significant wealth.
14. Figure 1 indicates that, relative to their employment and GDP shares, the property and primary sectors (which includes significant land holding activity) are disproportionately included in the wealth project population. As a result, there is less risk that these activities are underrepresented in the HWI population that has been selected for the project.
15. However, there are three primary limitations for this comparison:
 - The ANZSIC codes used are at a high level (level 1). As a result, the aggregation into primary, secondary, and tertiary sectors is relatively imprecise and these numbers are not comparable to the Stats NZ estimates of these economic sectors.
 - A significant minority of the HWI groups have not reported this information, and so has been excluded from analysis.
 - The data that has been used to analyse this population refers to the main activity reported by the taxpayer. This is a subjective description of a main activity, and so does not necessarily tell us about the magnitude of property or land holdings – or even necessarily represent how the individual’s activities would be viewed by an outside party.
16. Initial analysis of internal information suggests that a number of individuals report being involved in the tertiary investment sector, when the income generated by the entities they hold an interest in appears to be closer to other economic categories. This is part of the reason why the number reporting secondary economic sectors as their main activity is low.
17. In the information collection stage of the wealth project, further information about the nature of the entities connected to the HWIs, as well as the high-level asset make-up of those entities, will be collected – balancing the usefulness of the information with the increase in compliance costs associated with the request. This will allow us to form a clearer view of how property assets matter when evaluating measures of economic income and the related effective tax rates paid by HWIs.

Consultation with Treasury

18. Treasury was informed about this briefing note.

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