

Tax and the economic income of the wealthy

In 2022 Te Tari Taake, Inland Revenue, researched how much tax the wealthiest families in New Zealand pay compared to their economic income.

About this research

The research was done to fill in gaps in New Zealand's understanding of the taxation and income of the wealthiest New Zealanders.

Inland Revenue gathered a lot of information from 311 of the wealthiest families in New Zealand. These families generally have a net worth of more than \$50m.

This information cannot be accessed by anyone except a small project team, and will not be used for tax compliance or audit activity.

Inland Revenue also used information it already had or was publicly available.

Economic income

Everyone needs money to buy food, clothes, shelter and all other goods and services.

There are many ways to gain this money. Most people work and are paid salary or wages. Often people talk about this as their 'income', and it is always taxed.

Many people have investments, like savings accounts, shares or KiwiSaver. Some start businesses. Others make money by buying something of value, often property or a business, which they could sell later. Each of these things are taxed differently.

When you add up all the ways people gain the ability to spend money, that is called their 'economic income'.

Main finding

The effective tax rate (tax paid divided by economic income) of the families we researched varied considerably, depending on how their economic income was gained from 2015 to 2021. The median (middle) effective tax rate was **8.9%**.

How this compares to other people

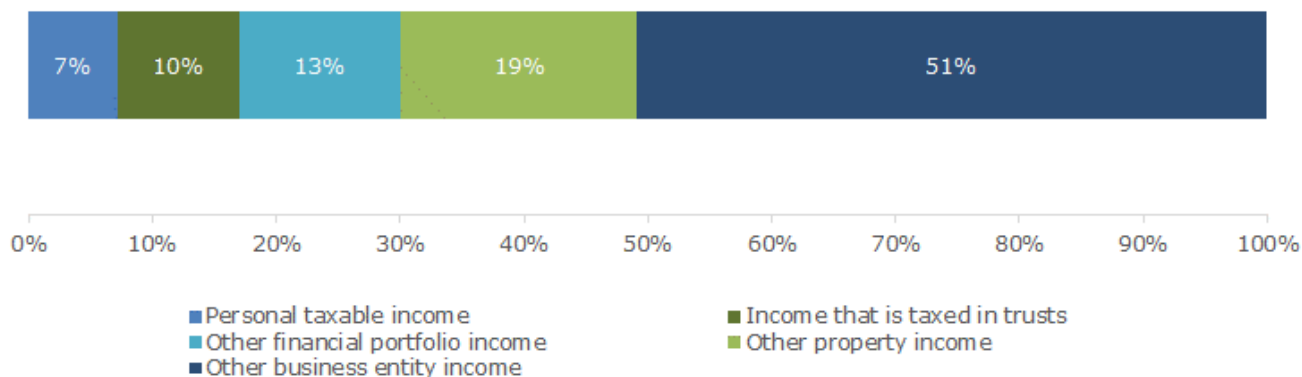
Treasury has recently published an analysis on the effective tax rates on economic income of New Zealanders more generally. The Treasury analysis doesn't include tax from companies and trusts owned or controlled by the individuals. But for much of the population a general comparison can be made.

If you subtract Govt. paid benefits away from someone's tax, and add GST paid in, then a middle wealth New Zealander has an effective tax rate of 20.2% according to the Treasury research. The comparable median for the wealthiest families in New Zealand, from Inland Revenue's research, is 9.4%.

Explanation

Compared to the rest of the population, the wealthiest people in New Zealand tend to earn more through their investments rather than from a salary or wage. The graph over the page shows the personal taxable income of the wealthiest families in New Zealand alongside other forms of economic income.

Personal taxable income and other income for surveyed families 1 April 2015 - 31 March 2021



Personal taxable income

The wealthiest people in New Zealand pay a higher rate of tax on their personal income than most people - things like wages, salary, interest and dividends. The median in the group researched was around 30% tax paid on \$268,000 of personal taxable income.

Someone on the median wage, with no other taxable income, pays around 21% of their wages in income tax.

Capital gains

Personal taxable income is only a small part of the economic income of the wealthiest New Zealand families.

Economic income also comes from the things you buy or own increasing in value. These things can be sold to gain the cash needed to buy goods and services.

From 1 April 2015 to 31 March 2021 the

researched families got most of their economic income from increases in the value of businesses, property and financial portfolios they own or control. This is called capital gains.

These increases in value are mostly not taxed as part of personal taxable income. However, the report accounts for tax paid by the businesses themselves.

Most of the capital gains made by the researched families came through increases in the value of businesses they own or control. However, economic income gained from businesses, property, and financial portfolios all had a similar impact on lowering their effective tax rate.

This group hold many of their assets in trust. Sixty-seven percent of the economic income made by the wealthiest families in New Zealand is made in trusts.

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