

Information Sheet: Inland Revenue's high-wealth individuals research project on effective tax rates

Introduction

Inland Revenue is undertaking research into the effective tax rates of high-wealth New Zealand households. This will involve collecting information from a group of high-wealth households.

This information is important to help us assess the fairness of the tax system.

Project objectives

The goal of the project is to improve the evidence base on which to assess the fairness of the tax system. The project will do this by improving our information on effective tax rates. The project is not making any policy recommendations, but the analysis will inform future tax policy advice.

The project is not directly related to any existing tax provision. No one's taxable income will be reassessed on the basis of the information they provide. Information collected in this project will only be used for the project.

A public report on the project is expected to be completed by June 2023. It will not identify any specific individuals, their financial information or their effective tax rate.

One reason we are doing this work is that current statistical surveys, such as the Household Economic Survey, are not well suited to collecting information from high-wealth households. As a result, Inland Revenue has decided to collect this important statistical information itself.

Approach

The project will compare the amount of tax an individual, and their household, pays to a number of different measures of income. This will allow us to estimate a range of effective tax rates for each household – enabling us to take different perspectives on how we assess the fairness of New Zealand's tax system.

Economic income is the broadest measure of income we will use. It is not based on legal concepts but seeks to estimate the increase in resources a person has available to them in a

Where will I be able to get more help?

Ask a question or request a call by emailing etrproject@ird.govt.nz

Further information is available at <https://www.ird.govt.nz/hwi-research-project>

given period. Economic income includes increases in wealth, such as through capital gains, and looks beyond legal or tax concepts of income.

Our methodology will be subject to peer review. More information on the methodology will be published in the future.

The high-wealth individual population

We will collect information from about 400 high-wealth households. The group has been identified by monitoring public information. Households in the population are believed to have a net worth exceeding \$20 million.

We will measure income on a household basis, where a household is defined as a lead person, (domestic) partner and dependent children aged under 18 (where relevant). This may not include all individuals living in your house.

Similar research carried out overseas collects information from households. This is also the approach taken by Stats NZ when collecting information for its Household Economic Survey.

Timelines

Information will be requested in three phases.

November 2021: We will ask you for details of your household members. We require this information because our research is based on household income.

January 2022: We will give you a list of entities and business undertakings (such as trusts and companies) that Inland Revenue believes you have an interest in. We will ask you to verify your interest in these entities and provide details of any additional entities you have an interest in. Your partner will be asked to undertake the same exercise. You will also be asked to provide information about the entities your dependent children have an interest in. You will have around six weeks to complete this exercise.

May 2022: You and your partner will be asked to provide any further financial information required to estimate the measures of income. Financial information for entities that you have an interest in will also be sought. You will have around three months to respond to this request.

For each of these phases, the information will be sought under section 17GB of the Tax Administration Act 1994 (the Act). You may ask your authorised tax agent to provide the information on your behalf.

What financial information will be requested in May 2022?

In May 2022, you and your partner, if any, will each be asked questions about your respective finances. You will also be asked the same questions for your dependent children.

These questions will enable us to estimate the economic measures of income. To minimise compliance costs, we will only ask you for information we cannot otherwise obtain (for example, through tax records and public databases).

The questions are likely to cover matters such as: financial information relating to companies, unincorporated businesses and trusts you have an interest in; the value of your financial assets (such as financial or portfolio investments); and your savings. We will also seek information relating to foreign holdings. We will not be asking you to undertake independent valuations of your assets.

Information will be required for the 2016–2021 income years. Collecting several years of information provides more consistency by smoothing out annual volatility.

We understand that some information we seek may not be available to you. You should use your best endeavours to answer the questions posed as accurately and as fully as possible.

Is it compulsory to provide information?

It will be compulsory for you to provide the information requested in November, January and May.

For these requests, Inland Revenue will be using its newly enacted power in section 17GB of the Act. This gives us express power to request information we consider relevant to “a purpose relating to the development of policy for the improvement or reform of the tax system”. This is consistent with the Commissioner’s statutory duty to provide advice to government, for which the Commissioner has a long and recognised history.

Information collected under section 17GB has specific statutory protections that prevent the Commissioner of Inland Revenue from using it in proceedings against you.

The consequences for non-compliance with section 17GB are the same as for other information-gathering powers, such as section 17B of the Act. Ultimately, the courts can be involved to ensure the power can be enforced. Inland Revenue hopes this will not be necessary.

How will privacy and confidentiality be protected?

Inland Revenue is committed to preserving the privacy and confidentiality of all information collected.

Our processes for protecting individuals’ personal information will follow the principles of the Privacy Act 2020, as well as our own confidentiality requirements. This project has been discussed with the Office of the Privacy Commissioner, and a Privacy Impact Assessment is being prepared (which we will publish) that will contain more detail on how your information will be treated.

We will seek information separately from you and your partner, if any, to preserve privacy (unless your partner directs otherwise). Information will not be shared with other members of your household without consent.

Once we have combined the collected information with information we already hold, any identifiable information about you will be removed (that is, the data will be anonymised). The information will not be published in a form that could identify you, your partner or associated entities.

Will Inland Revenue share identifiable information with other agencies?

Inland Revenue will only share identifiable information with other agencies in very unusual circumstances in accordance with the law.

If we received a request to exchange information under a tax treaty that related to any information provided for this project, the New Zealand competent authority would approach the persons concerned directly to collect the information. This would ensure that the most reliable information is made available and provide taxpayers with the opportunity to challenge any such request.

In exceptional circumstances, such as serious crime or national security, we may disclose information collected to other New Zealand agencies. There may also be rare occasions where we are legally required to disclose information (such as for a commission of inquiry).

How can you assure me the information won't be used for compliance purposes?

Information we collect in the November, January and May requests will only be used for this project (except for the limited circumstances noted above).

The information you provide (other than contact details) will be collected and transferred to a database separate from Inland Revenue's START system. The information will not form part of your tax records. Financial information you provide will only be accessible by a small number of people on the project who are on an approved person list. Access to the data will be monitored and can be audited.

The information will not be available to staff working in compliance and investigation areas. Staff working on the project will not share individualised information with any staff not working on the project.

Information will only be retained as long as it is required for the project. We will destroy the raw data once the report is published in 2023.