



Policy and Regulatory Stewardship  
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## Information Sheet 2: Inland Revenue's high-wealth individuals research project on effective tax rates

February 2022

### Introduction

Inland Revenue is carrying out research into the effective tax rates of high-wealth New Zealand households. This involves collecting information from a group of high-wealth households.

The information is important to help us assess the fairness of the tax system and will contribute to the development of tax policy.

You are receiving this information sheet because you are either one of the high-wealth individuals selected to take part in this project or you have been identified as the partner of one of the high-wealth individuals. We will also send a copy to your nominated agent for this project.

You have been sent an earlier version of this information sheet. This version includes more detail about the methodology we are using and the information we need from you this year.

### Project objectives

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

The project is not related to any existing tax provision. The information collected in this project will not be used for any other purpose, and it will be destroyed at the end of the project.

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

### Where will I be able to get more help?

Ask a question or request a call by emailing [etrproject@ird.govt.nz](mailto:etrproject@ird.govt.nz)

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

Further resources are available on the External Collaboration Hub Online (ECHO) site. If you do not have ECHO access, but would like it please email: [etrproject@ird.govt.nz](mailto:etrproject@ird.govt.nz)

One reason we are doing this work is because 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 and methodology**

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

Here are the income measures we intend to use.

- Taxable income. This uses personal taxable income, as defined in tax law.
- Gross-cash income. This adds several non-taxed receipts to personal taxable income. The main receipts added in are realised capital gains for sold assets and regular monetary gifts.
- Economic income. This adds both non-taxed receipts and accrued capital gains to personal taxable income. This measure of income will include accrued capital gains on unsold assets, as well as realised capital gains on sold assets. We will calculate estimates of this measure, both with and without including the 'imputed rental' for owner occupied houses. Imputed rental is a concept from economic theory. It is an estimate of the income you would receive if you rented your house and represents the value of (or foregone income from) the homeowner living in their home.

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

Our methodology will be subject to peer review by, among others, an advisory group formed by the Commissioner. This group is called the Methodology Advisory Group and includes about 10 subject matter experts from outside Inland Revenue. The Methodology Advisory Group does not have decision rights over the methodology, but the views of its members are considered for decisions on the final methodology. More information on the methodology is available on the ECHO site.

### **The high-wealth individual population**

We are collecting information from just under 400 high-wealth households. The group, which includes New Zealand tax residents only, has been identified from tax records and by monitoring public information. Each household is believed to have had a net worth of more than \$20 million at some point from 2016 to 2021.

We are measuring income on a household basis. We have defined a household as a high-wealth individual, their partner (if they have one) and any dependent children aged under 18. This may not include everyone living in the house.

Both the individual initially contacted and their partner, if they have one, will receive separate notices to request their information. This approach is intended to protect each partner's privacy and because people do not always have access to their partner's financial information. However, partners can choose to provide the information either individually or in a single joint response. You do not have to consult your partner if you are providing an individual response.

### **Timelines**

Information is being requested in three phases.

**November 2021:** We asked for information about household members - our research is based on household income.

**Week of 21 February 2022:** We will shortly ask you for a list of the entities (including trusts, partnerships, and companies) you have a significant interest in. The high-wealth individuals originally contacted – but not partners – will also be asked for information on entities held by any dependent children in the household. You and your partner can choose to provide the information either individually or in a single joint response. You will have around six weeks to provide this information.

**June 2022:** You and your partner will each be asked to provide the further financial information we require so we can estimate the measures of income for 2016 to 2021. We may also ask for financial information for entities you have an interest in. You will have around three months to respond to this request.

For each of these phases, the information will be requested under section 17GB of the Tax Administration Act 1994 (the Act). You may ask a tax agent or representative to provide the information on your behalf. Further guidance will be available from Inland Revenue through a dedicated email address.

### **What entity-related information is being requested in February 2022?**

You are being asked to identify entities such as the companies, partnerships, and trusts that you have a significant interest in. You will be sent a questionnaire, which has a guide explaining the questions.

We are only asking for information about entities with assets or income over a threshold (\$1,000,000), and which you have a significant interest in but do not necessarily legally control. For example, in February we will not ask for information about portfolio investments (that is, where your family's ownership is below 10%) in companies or funds.

The information sought will include information on trusts with which you or your family have certain relationships (such as settlor, appointer and/or beneficiary) and where the trust is over the threshold for assets.

We will ask for information over the period 2016 to 2021.

## **What financial information will be requested in June 2022?**

In June 2022, you and your partner will each be asked specific questions relating to your own individual income and wealth. You may choose to respond individually or jointly, as a household.

This information will enable us to estimate the economic measures of income. To minimise compliance costs, we will only ask you for information we cannot find somewhere else (for example, in tax records and public databases).

The questions are likely to ask for information 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)
- real estate that you own.

We will not ask you to have your assets independently valued.

The information we ask for will be for the 2016 to 2021 income years. Collecting several years of information provides more consistency by smoothing out annual volatility.

## **Is it compulsory to provide information?**

It is compulsory for you to provide the information we ask for in February and June 2022.

For these requests, Inland Revenue is using its 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 information you provide us will only be used for the purposes of this project.

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. We hope this will not be necessary.

While we understand you may not have all the information we ask for, you should try to answer the questions as fully and accurately as possible or use reasonable estimates where you are uncertain.

## **How will privacy and confidentiality be protected?**

We will ensure the privacy and confidentiality of all the information we collect is protected.

To find out more, see the first information sheet about this project and the Privacy Impact Assessment: <https://www.ird.govt.nz/hwi-research-project>