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***Legally Privileged***

**Felicity Barker**  
Project Director  
Inland Revenue  
Email: felicity.barker@ird.govt.nz

**RE: REVIEW OF HIGH-WEALTH INDIVIDUALS RESEARCH PROJECT**

Dear Felicity

Thank you for the opportunity to review the above research project report. I have a few comments. These largely reflect my observations which I have inserted into the **attached** document.

First, as you have correctly classified this, the document is very much a summary of research findings. This makes it different from most Inland Revenue reports or documents, but rightly so. I think you have done an excellent job of making this research evidence-based, and it does not offer suggested options about the New Zealand tax system.

The key conclusion from this research is that there is a significant anomaly between a theoretically progressive tax system and the actual rate of tax levied on high-wealth individuals regarding their economic income. You draw this out, but you can reflect on it even more. I recommend considering the term "upside-down tax effect," a somewhat colloquial description (nonetheless sometimes found in academic tax literature) of an unexpected or anomalous outcome in the report. Paragraph 17 of the executive summary discusses the widespread expectations of the amount of tax that wealthy people pay in a progressive tax system. Yet, the report comes to the opposite conclusion. I'm sure there are better descriptions than "upside-down tax effect", but this observed phenomenon of lower effective tax rates seems to require some amplification in a way ordinary people can understand.

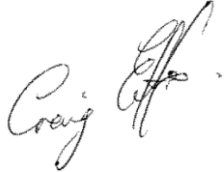
Secondly, I'm still a bit mystified about why 2021 stands out so sharply from the other years in the project period. As you will see from my comments, this is partly behavioural and partly due to a sharp period of asset appreciation. Even so, I think it needs to be explained further in the context of the results.

Thirdly, I have read the document carefully, and I commend you and the team on it for what I see as the significant contribution it makes to New Zealand tax research literature. I am sure that in the final review, it will be even more polished. Still, as it currently stands, it combines

incredibly valuable information, detailed calculations, and pragmatism. The Tax Working Group would have been delighted to have had this information.

If you require further information, please do not hesitate to contact me regarding the above details.

Yours faithfully

A handwritten signature in black ink, appearing to read "Craig Elliffe". The signature is written in a cursive style with a large initial "C" and "E".

**Professor Craig Elliffe**