

High Wealth Individuals Research Project:

REVIEW OF DRAFT REPORT

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March 2023

Draft report received on February Friday 3rd 2023

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1 Summary

The High Wealth Individuals Research Project provides the first effective tax rates (ETR) measures for individuals from the *very* top of the New Zealand wealth distribution. The report first shows ETR calculated based on information available in administrative taxable income registers. The median ETR calculated using a net income concept is 30%, with almost no variation over time and limited cross sectional variation. The report proceeds by using a combination of administrative and public register data as well as detailed survey information to extend the income concept in the ETR calculations. The broader income concept is labelled economic income and includes a range of additional income sources e.g., accrued capital gains from trusts, listed companies and property etc. The results show that the ETR measures are sensitive to some of these inclusions, with an ETR estimate for the *All-income* concept equal to $\approx 8.2\%$. Overall, I found the results interesting, informative but also expected, and in line with international results. In the process of calculating economic income many researcher decisions are required. The analysis follows the academic literature by being very transparent: the report highlights decisions and often presents the primary results alongside several robustness checks to show the consequences of the chosen approach. The second draft of the report has a consistent structure across chapters which makes it easy to follow. Results are presented in a consist way which makes it easy for the reader to absorb the results and methodological approaches. Below follows a list of smaller suggestions and comments/thoughts which each refer to specific report sub-chapters of the draft report.

2 Other comments

It would be informative if all graphs included a *note* to show the number of individuals used in the calculation e.g., percent of project population.

ETR equations are presented as just numerator and denominator I would add the LHS of the equation and write it all out: $ETR = \text{numerator} / \text{denominator}$. E.g., Box 2.

3 Re. Executive Summary

Re. 13. Raw numbers can be a difficult to appreciate. It would be useful with a baseline for comparison e.g., if in addition to the number itself the \$926,353,562 was averaged by individuals and year then it would be possible to compare to \$266,000 in taxable income in (6) but other baselines could also work.

Re. 26. Add a note as to why the change in confidence – perhaps, more assumptions being needed for the calculation in e) compared to a)

Re. Idea for a visual representation of the findings in the executive summary: Add in a bar plot showing the development of the ETR across A-E. Y-axis is percent. X-axis is five categories: 1. A, 2, A+B, 3 A+B+C, 4 A+B+C, 5, A+B+C+D.

4 Re. Chapters 11 - 15

Chapter 11

11.2. I think it is very informative and it would be useful to have in every chapter introduction.

11.8. I was a bit confused as to exactly what administrative data source was referred to here?

11.19. How many industries does not have a comparable multiple? If this is a large share (I suspect not) then perhaps a weighted mean would be a useful approach to recognize that some industries are closer in nature to each other.

11.34. This is small point but I suggest changing the axis to million NZD so less of graph area is taken up by zeros. Carries over to 12.1 (and probably more places).

Chapter 12

Figure 12.3. Includes six lines but it is incredibly hard to distinguish these plots from each other. Perhaps Figure 12.3 Panel A (Individual) and Panel B (Family)?

Figure 12.4. Shows some variation in the ETR for all three *All-income* measures. Is this mainly driven by variation over time or by individual (within year variation)?

Table 12.2. Difference to base is in %-points which should be noted but perhaps these two columns could be deleted.

Chapter 13

13.1 Makes references to a ‘subset of the Project population’: I think it would be useful, if it possible to write out the percentage of the population under is study in this (and all other) chapter(s).

13.11. “Capital gains are calculated by taking the individual’s holdings on the last day of the quarter multiplied by the change in share price over the next quarter.” How much does the ‘last day’ approach matter for the calculation compared to using averages over the quarter?

13.13. I think the business cycle test is nice – a different view on business cycle definitions (compared to reference in footnote 108): <https://www.nber.org/research/business-cycle-dating> perhaps mostly for noting.

Figure 13.1. See 11.34. Also, all three included graphs are interesting but unfortunately they all require different axis in the current version the “Tax on base plus SLC income” line is almost redundant – a reader can note that line is above zero and seems to include only very limited variation. Perhaps an alternative option is to calculate Tax as share of Base plus SLC income and use the RHS y-axis.

Figure 13.16. I agree that correlation point is likely true (I would add in the estimate, $\rho = 0.??$) but I note that the graph might visually suppress a higher correlation just because it looks as if there is no change in the Tax line and there might not be but the y-axis range is so wide that a reader cannot know for sure.

Chapter 14

14.2. Re. Incidence assumption. You can state that you follow the Mirrlees Review (see Mirrlees (2010)) and rely on the key assumption that VAT incidence falls fully on consumers. Note that since the publication of the Mirrlees Review, researchers have studied the incidence of VATs, e.g. Gaarder (2023)

Figure 14.1. Note I found no reference to this figure in the text. I think it is sufficient to have source listed below the Figure and on include “Thomas” in the Figure title.

Figure 14.2. See Figure 14.1

Chapter 15

Re. 15.2. Reference should be Delestre et al. (2022).

References

- Gaarder, I. (2023). Incidence and distributional effects of value added taxes. *The Economic Journal*.
- Mirrlees, J. (2010). Dimensions of tax design: the mirrlees review. *Oxford University Press*.