



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: High-Wealth Individuals Research Project: December 2021 update

Date:	2 December 2021	Priority:	Medium
Security level:	In Confidence	Report number:	IR2021/592

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Refer to the Minister of Finance for his information	9 December 2021

Contact for telephone discussion (if required)

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2 December 2021


Minister of Revenue

High-Wealth Individuals Research Project: Progress update

Purpose

1. This report updates you on progress on the High-Wealth Individuals Research Project (the Project).
2. The major milestones in the Project have been contacting individuals in the population and undertaking the first information collection (the family details collection).

Contacting individuals and family details collection

3. In late October, 405 individuals were contacted advising them they are part of the Project. They were provided with a description of the Project and information on the upcoming requests. Their tax agents were also contacted. Agent authorisation was sought for the Project. A webpage describing the Project is on the Inland Revenue website.
4. At the initial letter drop, we anticipated there would be valid reasons for some people to be excluded from the population. Around 25 people have been excluded for reasons such as that they were never of high net wealth¹, were non-resident over the relevant period, or are deceased or seriously ill and therefore lack capacity to respond. Individuals have not been excluded because their wealth declined over the relevant period as doing so would skew the results. Three people in the initial population have not been able to be contacted.
5. The first information collection involved sending letters requesting family details. These were sent to the Project's population on 3 November 2021, with emails sent on 4 November 2021. These requests were issued under the new s 17GB of the Tax Administration Act 1994 (TAA). Responses were required by 24 November 2021, although some extensions have been granted due to delays in delivery.
6. s18(c)(i)

7. Work is well underway preparing for the second information collection - which will collect information on the entities that are linked to the High-Wealth Families. Requests for this information are now due to be sent out early February 2022.

Listed company workstream

8. Within the Project there is a listed company workstream that does not rely on collected information.

¹ Our population has been split into family units (lead, partner, dependent children) that are smaller than the groups monitored by Inland Revenue's compliance area (which may consolidate siblings with joint business ventures, for example). These smaller units have lower net wealth than the groups used for compliance reasons in some cases. This is the main reason some groups were found not to be high wealth despite being within the initial population.

9. The listed company workstream will examine a subset of New Zealand's high-wealth individuals (HWIs) holding a substantial amount of wealth in publicly listed companies. This information will help Inland Revenue build an understanding of how income, particularly from capital gains, may lead to changes in measured income and effective tax rates. Furthermore, we do not anticipate additional compliance costs being imposed on the HWI population as a result of this workstream.
10. For each individual in the subset, longitudinal data on the income and capital changes (additional sales or purchases or changes in the structure of capital) derived from their holdings in a publicly listed company (or group of companies) will be collected from proprietary financial market terminals (for example, Bloomberg terminal). This information will be compared to longitudinal tax data on these individuals. This will give us a better understanding of how income flows from capital gains may lead to changes in measured income and effective tax rates.
11. To date, the listed company workstream has collected publicly available data on the subset of HWI groups and their holdings in publicly listed companies.
12. During December 2021, the listed company workstream will collect longitudinal data on the income and capital flows derived from each individual's listed company holding.

Use of section 17GB

13. Information for the Project will be collected under section 17GB of the TAA. When the Commissioner uses s 17GB of the TAA to collect information, there is a statutory limitation on the Commissioner using that information in proceedings. The Commissioner can take operational steps to ensure compliance with that limitation. For this Project, it means that information collected using s 17GB can be strictly ringfenced from Inland Revenue staff not working on the Project. This protects the integrity of future investigations by ensuring that information collected under s 17GB cannot be challenged.
14. One concern of individuals is that information they provide might be used to reassess their tax liability. By using s 17GB, we can reassure participants that their information will not be available for reassessment of their tax liability.
15. Section 17GB will be used each time information is to be collected from participants in the Project to ensure that all information collected receives the statutory protection in the section.

Compliance strategy

16. We expect that some individuals will not comply with the information requests. We are developing a compliance strategy that is consistent with the Commissioner's general compliance policy, such as ensuring that customers can get it right from the start, while reflecting the unique nature of, and challenges associated with, the Project. The compliance strategy will need to be iterative, taking account of individuals' responses as these become clearer.
17. The strategy emphasises pro-active facilitation, with the aim of maximising response rates to the information requests while minimising the need for more formal compliance steps. The pro-active facilitation includes providing information resources for the individuals, working closely with their tax agents, and establishing a contact team to manage correspondence. A web-based 'collaboration site' has been established to share information, and a Methodology Advisory Group (see below) has been established to provide challenge and input into the methodology for calculating income and effective tax rates.

18. The request for information is broken into three stages. There will also be a staged approach to compliance, with an increased focus on enforcement in stages two and three, as compared to stage one (given the minor nature of the information sought at that stage).
19. At each stage of the Project, a follow-up letter will be sent to those who do not respond within the required timeframe. This has been done for the first information collection.
20. An option available to the Commissioner in the event of non-compliance is to seek court orders requiring the provision of the information. There are serious consequences for non-compliance with a court order under the TAA. It is also an offence under the TAA not to provide the required information.

Methodology Advisory Group

21. A Methodology Advisory Group (the MAG) has been set up to advise and comment on the technical measurements of income and effective tax rates. The MAG is an external reference group made up of representatives from Inland Revenue and the economics and tax community.
22. The MAG will provide feedback on the work undertaken. However, we will continue to retain full responsibility for the work.
23. The MAG will help to improve the quality of the Project and thereby improve public perception and understanding of the Project. Supporting public debate of tax policy through improved information is a key outcome of this Project.
24. The focus of the MAG will be the technical methodology used in calculating measurements of income and effective tax rates. We are still investigating the focus for each meeting, but they are likely to include the following:
 - Definitions of income.
 - Calculation of effective tax rates.
 - Approaches to valuation of assets, such as unlisted companies.
 - The derivation of income measures based on the above.
25. It is planned that the MAG will convene quarterly, with the initial meeting scheduled to take place in December.

Next steps

26. We plan to report to you in March 2022 to provide an update on the entity collection process and listed company analysis.

Recommended action

We recommend that you:

27. **note** the contents of this report.

Noted

28. **refer** a copy of this report to the Minister of Finance for their information.

Referred/Not referred

s9(2)(a)

Felicity Barker

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Policy and Regulatory Stewardship

Hon David Parker

Minister of Revenue
/ /2021