



POLICY AND REGULATORY STEWARDSHIP

Tax policy report: High-Wealth Individuals Research Project: February 2023 update

Date:	16 February 2023	Priority:	Medium
Security level:	In Confidence	Report number:	IR2023/051

Action sought

	Action sought	Deadline
Minister of Revenue	Note the contents of this report Refer to the Minister of Finance for their information	NA

Contact for telephone discussion (if required)

Name	Position	Telephone
Felicity Barker	Policy Lead, Economics	9(2)(a) [REDACTED]
Graham Tubb	Principal Policy Advisor	9(2)(a) [REDACTED]

16 February 2023

Minister of Revenue

High-Wealth Individuals Research Project: February 2023 update

Introduction

1. This report provides you with an update on various aspects of the High-Wealth Individuals (HWI) Research Project and attaches a copy of the draft report. Our last progress update report was dated 30 November 2022 [IR 2022-445].

Status of Project/initial conclusions

2. We attach a copy of the draft report of Inland Revenue's High Wealth Individuals Research Project (the Project), which is nearing readiness for release. This draft is undergoing its second stage of peer review. The draft report outlines the results of our analysis to date, alongside the background Project methodology. The results at this stage are still preliminary.
3. As you are aware, the report investigates the average effective tax rates of a group of 311 New Zealand families identified as having high net worth for New Zealand. The comprehensive range of ETRs based on economic, rather than taxable income, and measured across key asset classes, is intended to advance our knowledge of the progressivity of the New Zealand tax system.
4. The data received from the Project population, together with information from Inland Revenue databases and other sources, has now been analysed within the Project, with appropriate conclusions developed.
5. At a very high level, those conclusions include:
 - a. The median ETR calculated based on the personal taxable income of the group is approximately 30%. This is consistent with the progressive personal tax scale.
 - b. The main source of untaxed income used in calculating the various ETRs in the report is capital gains (both accrued and realised). There is a high degree of volatility in capital gains or losses over the Project period and between asset categories.
 - c. However, ETRs based on the wider concept of economic income are considerably lower than those based on taxable income. When all sources of income are included, the median Project period ETR of the families in the population is 8.2% and the weighted-mean ETR is 8.5%.¹
 - d. The inclusion of GST only has a small impact: the median Project period ETR is 9.0% when GST is included (a difference of 0.8 percentage points).

Next steps in the Project

6. Following completion of the second peer-review process at the end of February, any recommended amendments will be made in March. Results are subject to verification, which will occur during February 2023. It is expected the final report will be published in April 2023.

¹ Including imputed rents in income. Imputed rents make minimal difference to the ETRs.

7. We will provide you with a copy of the final report prior to publication.
8. A copy of the final report will be made publicly available on the Inland Revenue High-Wealth Individuals Research Project webpage.
9. A plan for communications regarding the release of the final report is being finalised. This will at a minimum involve the release of a press statement by Inland Revenue, alongside a High Wealth Individuals Research Project fact sheet and plain language one page summary. There will be some internal messaging within Inland Revenue to ensure contact teams are aware of the report.
10. We expect there to be some demand for pre and subsequent briefings to key professional groups. We intend to brief a small group of key stakeholders, on a confidential basis, the day prior to the release of the report. This will help ensure the report is accurately reported in the media. To that end we will prepare briefing material.
11. We are currently working with our marketing and communications team on how best to handle these steps. We will work with your office on release of the report and on any steps your office may wish to take.

Key talking points

12. You may wish to have available some key points, when considering any external enquiries for example. We have included some key points and messages as an attachment to this report.
13. You may like to share these key points with your colleagues over coming weeks.

Consultation

14. We have provided the Treasury with a copy of this report.

Recommended action

We recommend that you:

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

Referred/Not referred

refer the key points in the appendix to this report to interested Ministerial offices.

Referred/Not referred

9(2)(a)



Felicity Barker

Policy Lead, Economics

Policy and Regulatory Stewardship

Hon David Parker

Minister of Revenue

/ /2023

Appendix: Key messages/responses	
<u>1</u>	The High-Wealth Individuals Research Project is an evidence based-research project carried out by Inland Revenue. It focuses on just over 300 of the wealthiest tax-resident New Zealanders and their direct household family members, in the years 2015-21. The Project, and resulting report, was the subject of specific funding in the 2021 Budget. The report will be presented early and under budget.
<u>2</u>	The Project paints a more comprehensive picture of the tax system and its progressivity (and therefore fairness) and gives Inland Revenue more robust evidence to provide tax policy advice. The principal approach is to measure the average effective tax rates (ETRs) of the high-wealth group, based on a comprehensive definition of income, and compare those to the ETR on income as defined by tax law (taxable income).
<u>3</u>	An (average) effective tax rate (ETR) is the amount of tax paid relative to a measure of income. Measuring ETRs relative to a comprehensive measure of income, including taxable and non-taxable sources, illustrates the extent to which high-wealth individuals earn income that is untaxed, or subject to lower tax rates than personal taxable income. The taxes included are personal, corporate and trustee tax.
<u>4</u>	The key findings show firstly that the taxable income of the group is subject to tax at a median ETR of 30%, consistent with the statutory personal tax scale. When certain classes of additional income, and their associated tax, are added, the ETR of the group over the Project period drops substantially. When all sources of income are aggregated the median Project period ETR of the families in the population is 8.2% and the weighted-mean ETR is 8.5%. The main form of additional income added is capital gains. Adding GST brings the median ETR to 9.0%
<u>5</u>	The report also finds that the high-wealth population earn a significant amount of income through trusts and business entities. Inclusion of the income from these structures significantly reduces the population's ETRs.
<u>6</u>	Inland Revenue carried out this research by using its information base (and public databases) as well as refining that through collecting information from the high wealth individuals.
<u>7</u>	The Project methodology has been subject to comment from an advisory group of external economic, statistical and tax experts known as the Methodology Advisory Group. The Report's findings have been peer reviewed by two reviewers.
<u>8</u>	For the Project, Inland Revenue has made use of a new statutory power to collect information for tax policy purposes. The power has proved effective. The high-wealth individuals concerned (and their advisers) have been very cooperative throughout the process. The overall response rate has been approximately 90%.
<u>9</u>	Inland Revenue has and will preserve the privacy and confidentiality of all information the Project has collected from the Project population – a comprehensive Privacy Impact Assessment has been published. That information will not be used to reassess anyone's taxable income and raw collected data will be destroyed when the report is finalised. The report does not disclose data on specific individuals and meets a set of confidentiality standards similar to those used by Stats NZ.
<u>10</u>	The report also looks at the ratio of GST to income across the New Zealand population. In common with other research, it finds that based on Household Economic Survey data for the general population, the GST-to-income ratio declines with income. This trend largely continues based on survey data from the high-wealth population, although data differences result in some volatility in the ratio. For the Project population, the inclusion of GST increased the median Project period ETR (based on economic income) by 0.8 percentage points.

[IN CONFIDENCE]