

# ENGAGING WITH HIGH NET WORTH INDIVIDUALS (HNWI) ON TAX COMPLIANCE

## HEADLINE MESSAGES

- The HNWI segment consists of high wealth and high income individuals and is of particular interest for tax administrations because of the:
  - complexity of their affairs and the large numbers of entities they may control;
  - amounts of tax revenue at stake;
  - opportunity to undertake aggressive tax planning; and
  - impact on overall integrity of tax system.
- At the upper end of the HNWI market, the compliance approach is similar to the ‘enhanced relationship’ some countries currently use for large corporate taxpayers.
- To improve compliance, tax administrations could consider changing the structure of their operations to effectively focus resources, for example through the creation of a dedicated HNWI unit and to include a focus on the activities of HNWI related entities.
- Greater international co-operation, at both a strategic and an operational level, would improve the sharing of information and expertise between tax administrations, particularly on cross border dealings.
- Tax administrations should also strive to provide maximum guidance on voluntary disclosure rules and programmes, whilst dealing firmly with those who commit tax evasion and fail to come forward before intervention by the authorities.

## COUNTRY PARTICIPATION

Fourteen countries participated in the working group: Australia, Canada, France, Germany, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, South Africa, the United Kingdom and the United States of America, with Switzerland as an observer.

## PROCESS USED

The study was commissioned in January 2008 at the fourth meeting of the FTA in Cape Town as a follow up to the *Study into the Role of Tax Intermediaries*<sup>1</sup>. The study was conducted by a joint FTA/Working Party No. 8 focus group which met on three occasions from mid 2008 to March 2009.

Members of the focus group consulted with HNWI’s advisers a select number of whom attended a meeting of the focus group held in Paris in October 2008. A public consultation paper was released on the OECD website on 30 October 2008, which received 24 written responses. A meeting was also held with 20 industry representatives and private client advisors on 9 February 2009. Public consultations were separately undertaken by tax administrations in Australia, Ireland, Mexico, New Zealand and the United Kingdom.

## MAIN RECOMMENDATIONS

Experience suggests that firm action when combined with good compliance activity and good service can significantly improve compliance by HNWI’s:

- Gaining a greater understanding of the risks posed by the HNWI segment by:
  - looking at the types of aggressive tax planning (ATP) schemes in the marketplace, the suppliers of ATP, and the HNWI’s motivation; and
  - developing a strong commercial awareness of the broader concerns of HNWI’s, including privacy, wealth preservation and their ability to pass on wealth to future generations
- Building an effective capability to manage tax risk by establishing an appropriate structure in tax administrations to deal with HNWI’s and focusing resources by:
  - creating dedicated units which are adequately staffed by experienced officials;
  - establishing a framework for dialogue between senior revenue officials, HNWI’s and their advisers; and
  - balancing compliance activities with taxpayer service functions.
- Improve international co-operation at both a strategic and an operational level, including the use of regular meetings between heads of HNWI units and other specialists within tax administrations.
- Creating an appropriate legislative framework targeted at specific aggressive tax planning risks by taking a holistic approach to focus our strategies.
- Explore how the concept of co-operative compliance could be applied to the HNWI segment, by (where appropriate):
  - considering the use of dedicated contact points;
  - developing a pre-filing programme or advance ruling programme;
  - involving the advisers of HNWI’s in the development of legislation that specifically affects their clients;
  - emphasising the need for transparency and disclosure that goes beyond what is statutorily required; and
  - providing clarity on key issues of concern to taxpayers wishing to make a full disclosure regarding past non-compliance.

<sup>1</sup> Fourth Meeting Of The OECD Forum On Tax Administration, *Cape Town Communiqué 11 January 2008*

### **POSSIBLE NEXT STEPS**

- The report will be published by the OECD following the May 2009 FTA meeting.
- Australia will report back to the FTA on their experience in applying a co-operative compliance approach to the HNWI segment.
- This could be followed up by an FTA workshop to discuss offshore voluntary compliance approaches, which would examine recent country experiences with these initiatives.
- As well as a workshop on HNWI operations to provide a forum for improving co-operation, shared experience and to update on latest developments.