SUBSIDIES
Notifications Pursuant to Article XVI:1

NEW ZEALAND

The following notification has been received from the Permanent Mission of New Zealand.

1. Export Performance Taxation Incentive (EPTI)

Background

Authority for the EPTI is granted in the Income Tax Act 1976 under section 156A. The EPTI was introduced to promote exports and, in particular, to encourage exports by manufacturers who have previously produced mainly for the local market.

Incidence

The incentive is given to exporters of qualifying goods as a tax credit, the rate of which varies according to the local domestic content of the goods exported. The goods exported have been assigned a domestic value added band and this is shown in the schedule of exported goods. Each value added band represents a specified rate of tax credit which when multiplied by the FOB sales of that product gives the total incentive allowance. The rate varies from 11.9 per cent of FOB sales for those goods with a domestic value added content of 80 per cent - 100 per cent, to 1.4 per cent for goods with a domestic value added content up to 20 per cent.

Legislation has been enacted which phases out the incentive as follows:

Income year ended 31 March 1985
The full incentive is available.

Income year ending 31 March 1986
The incentive is limited to 50 per cent of the specified rate.

Income year ending 31 March 1987
The incentive is limited to 25 per cent of the specified rate.

Income year ending 31 March 1988
No incentive is available

Cost of EPTI

As subsidy is paid as a tax credit the total value of revenue foregone is not recorded.
2. Export Market Development Taxation Incentive (EMDTI)

Background

This incentive is provided by section 156F of the Income Tax Act 1976. It was introduced to assist industries to search for new markets for New Zealand manufactured goods and services.

Incidence

This incentive is available to any New Zealand taxpayer who incurs expenditure, which qualifies as an ordinary deduction for tax purposes, primarily and principally for the purpose of:

- seeking markets, the retention of existing markets, obtaining market information, market information, market research, creating or increasing demand for the export of goods or services.

- attracting tourists to New Zealand.

The incentive currently provides a tax credit of 67.5 percent of qualifying expenditure (i.e. 1.5 times the current rate of company tax).

Under existing legislation the incentive will cease on 31 March 1986. However, following a review of Government assistance for export and tourism promotion activities it was announced that the incentive would be phased out as follows:

- **Income year ending 31 March 1987**
  Tax credit will be 69.0 percent

- **Income year ending 31 March 1988**
  Tax credit will be 64.0 percent

- **Income year ending 31 March 1989**
  Tax credit will be 58.0 percent

- **Income year ending 31 March 1990**
  Tax credit will be 53.0 percent

- **Income year ending 31 March 1991**
  Tax credit will be 45 percent

The legislation which will give effect to this proposal has not yet been enacted.
Cost of KMDTI

As subsidy is paid as a tax credit the total value of revenue foregone is not recorded.

3. Exemption from Sales Tax of some Machinery for Production

Background

The Customs Department administers a scheme (announced in the 1976 Budget) whereby machinery used principally in the production of goods for export can be exempted from sales tax.

Incidence

Applications can be made under the following categories:

(a) Machinery from which 40 percent or more of total annual production by f.o.b. value will be exported.

(b) Machinery for use in the production of goods for export where the company purchasing the machinery exports $NZ500,000 (f.o.b. value) or more goods per year.

(c) Machinery for use in the production of goods for export where such exports will increase by $NZ50,000 (f.o.b. value) per year.

(d) Machinery for use in the production of goods for export where such exports in the first year of production of the machine will exceed by 20 percent exports in the previous year with minimum additional exports of $NZ20,000 (f.o.b. value) per year.

(e) Machinery for use in the production of goods for export which is not covered by any of the above categories.

In addition to the arrangements outlined above, exemption from sales tax has been approved in respect of machinery purchased for use in the following industries: freezing works, wool scouring plants, butter factories, casein factories, cheese factories, milk powder factories, iron sands extraction.

The Government has announced its intention to introduce a goods and services tax with effect from 1 October 1986. This tax will supersede the current sales tax, and it is intended that at this time the abovementioned exemptions from sales tax will be revoked.

Cost

As subsidy is paid as a tax exemption, the total value of revenue foregone is not recorded.
4. **Fertiliser Price Subsidy**

**Background**

The subsidy is designed to ensure that the rate of fertiliser application is kept at a level that allows adequate soil nutrient maintenance, and contributes to some improvement.

**Incidence**

A subsidy of $12/tonne on the price of locally manufactured and imported fertiliser. The subsidy is deducted from the cost of raw materials or at the first point of sale in New Zealand. This subsidy will be terminated on 30 June 1986.

**Cost**

$23 million in 1984-85, and an estimated $24.9 million in 1985-86.

5. **Sharemilkers Suspensory Loans**

**Background**

The loans are intended to help overcome financial disincentives to sharemilkers who sell a part of their dairy herd to finance the purchase of a farm.

**Incidence**

Interest free suspensory loan of up to $7,000 to assist farmers meet tax on the sale of stock with a change to ownership of a dairy farm. Over the last ten years the number of applications for suspensory loans has been about 150 per annum - the scheme has no termination date.

**Cost**

$390,000 in 1984-85, and an estimated $409,000 in 1985-86.

6. **Subsidy for the Control of Potato Cyst Nematode**

**Background**

The objective is to provide for the payment of a subsidy on a per hectare basis to potato growers of one third of the average added cost of applying nematicide or obtaining resistors in the course of controlling potato cyst nematode. The subsidy has been reviewed and the Minister of Agriculture on 31.10.85 approved its continuation on the same basis to the 1988 growing season at an estimated cost of $60,000 per annum.
Expenditure in 1984-85 was $26,000, and estimated expenditure in 1985-86 is $60,000.

7. **Agricultural Pest Control**

**Background**

This item provides for the cost of controlling agricultural pests. The Government has agreed to the funding level for agricultural pests destruction being reduced by $0.8 million annually with effect from 1985-86 and phasing out by 1993-94.

**Cost**

In 1984-85 expenditure was $7 million, in 1985-86 it is estimated at $6.2 million and provides for grants to pest destruction boards and the operating costs of the Agricultural Pests Destruction Council.

8. **Control and Eradication of Animal Diseases**

**Background**

Provision is made in this item for compensation associated with ongoing programmes to eradicate brucellosis and bovine tuberculosis from cattle.

**Incidence**

The owners of reactor animals are paid 95 percent of the current market or replacement value which could be obtained for the animal concerned.

**Cost**

Expenditure in 1984-85 was $4.15 million, with estimated expenditure in 1985-86 at $3.65 million.

9. **Noxious Weeds Eradication**

**Background**

This expenditure item encompasses many different schemes for noxious weed eradication both at the national and local levels.

**Cost**

Expenditure in 1984-85 was $9.5 million, with estimated expenditure of $3.7 million in 1985-86.
10. Fishing Vessel Refrigeration Suspensory Loans

Background
The loans were introduced in 1979 to assist in improving the quality of fish landed, by enabling fishermen/companies to install/upgrade refrigeration equipment on board existing fishing vessels.

Incidence
A suspensory loan of up to $20,000 is available per applicant and provided the conditions of the loan are met, the loan is interest free and written off after three years. The scheme will probably be terminated as from next year.

Cost
In 1984-85 expenditure was $49,000, and is estimated at $57,000 in 1985-86.

11. Fisheries Development Grant Fund

Background
The fund was introduced in 1977 to assist the fishing industry finance projects in order that it could realise its potential as a significant export earner, and to promote research into new fisheries and alternative processing techniques.

Cost
In 1984-85 expenditure was $100,000, with the same amount estimated for 1985-86.

12. Fishing Vessel Construction Suspensory Loans

Background
The loans were introduced in 1979 to encourage the construction of larger vessels in New Zealand shipyards and so make a significant contribution towards the development of new fisheries.

Incidence
Suspensory loans equivalent to 40 percent of the approved cost of the vessels are granted, and provided certain catch targets of eligible species are achieved within a specified time the loans are written off. The scheme is likely to be terminated shortly as its original objectives have largely been achieved.
Cost

In 1984-85 expenditure was $1.8 million, with an estimated cost of $0.1 million in 1985-86.