SUBSIDIES

Notifications Pursuant to Article XVI:1

NEW ZEALAND

The following notification up-dates the notification circulated in L/5768/Add.9.
SUBSIDIES

Notifications Pursuant to Article XVI:1

The following update of notifications is submitted by New Zealand.

1. Export Performance Taxation Incentive (EPTI)

Authority for the EPTI, an export promotion measure, is granted in the Income Tax Act 1976 under section 156A. In line with New Zealand's process of reducing distortionary subsidies the EPTI is to be abolished at the end of the 1986-87 financial year.

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 percent of FOB sales for those goods with a domestic value added content of 80 percent - 100 percent, to 1.4 percent for goods with a domestic value added content up to 20 percent. In the terminating year of the incentive (Income year ending 31 March 1987) the incentive is reduced to 25 percent of the specified rates.

Cost of EPTI: The revenue value of the incentive in the year to 31 March 1986 was $201,374,374.00. Owing to taxation changes there are no valid estimates for the final year 1986-87.

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 1991. Until then the incentive will be 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 48 percent

**Cost of EMDTI**

The net value of the export incentive in the year to 31 March 1986 is $50,735,840.00 and an estimated $47,354,000 in 1986-87.

**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 NZ$500,000 (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 NZ$250,000 (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 NZ$20,000 (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.

**Cost**

As subsidy is paid as part of a package of tax exemptions, the total value of revenue foregone is not recorded.

4. **Fertiliser Price Subsidy**

**Background**

The subsidy was 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 was deducted from the cost of raw materials or at the first point of sale in New Zealand. The subsidy was terminated on 30 June 1986.
Cost

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
$251,000 in 1985-86 and an estimated $100,000 in 1986-87.

6. Subsidy for the Control of Potato Cyst Nematode

Background
The objective was 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 resisters in the course of controlling potato cyst nematode. The subsidy has been terminated as from 1 April 1986.

Cost
Expenditure in 1985-86 was $50,000.

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 affect from 1985-86 and phasing out by 1993-94.

Cost
In 1985-86 expenditure was $5.7 million, in 1986-87 it is estimated at $4.4 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 1985-86 was $4.25 million, with estimated expenditure in 1986-87 at $3.59 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 1985-86 was $3.79 million, with estimated expenditure of $4.4 million in 1986-87.

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 has been terminated as from 1 July 1986.

Cost

In 1985-86 expenditure was $56,000.
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. The fund has been terminated as from 1 April 1986.

*Cost*

In 1985-86 expenditure was $100,000.

12. **Fishing Vessel Construction Suspensory Loans**

*Background*

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.

*Cost*

In 1985-86 expenditure was $2.2 million with an estimated cost of $1.2 million in 1986-87.