OUTLINE FOR EXAMINATION OF BORDER TAX PRACTICES

New Zealand Replies

The delegation of New Zealand has supplied the following answers to the questions in the outline (Spec(68)98 and Add.1).

I. TAX SYSTEMS

A. General consumption taxes

   (b) Single-stage taxes

Manufacturing, wholesale

1. For imports, see paragraphs A.1 and 4 on pages 157/158 of Spec(68)88. For exports, see paragraph B.2 on page 161 of Spec(68)88.

2. All persons and firms selling taxable goods by wholesale are licensed under the Sales Tax Act 1932-33. Businesses selling at both wholesale and retail levels are licensed usually only if the turnover is predominantly wholesale.

3. Most raw materials and components do not incur tax. Where taxable goods are used in connexion with the production of other goods the tax is remitted or refunded to the manufacturer of the other goods. There is no provision for remission or refund in respect of taxable goods used in the transport of other goods. Ordinary trade containers do not bear tax. The situation is unaffected by whether the goods are home produced goods, exports or imports.

4. See paragraph A.1 to 4 on pages 157/158 and paragraph B.2, last sentence on page 161 of Spec(68)88. In the case of retail transactions by wholesalers, the value for tax is the normal wholesale price. There is no special provision for capital goods as such but most capital goods fall within exemptions for specific goods (e.g. industrial machinery). Services are not taxed.

5. The answer to the first question is No. In reply to the second question (originally in Spec(68)98/Add.1) there are products subject to the sales tax which are not made in New Zealand e.g. watches and typewriters. This situation arises because the sales tax does not make any distinction in respect of the origins of taxable goods.

6. There is no difference in rates.

7. No regional differences.
8. Imports: there are exceptions in respect of certain goods imported by passengers for their own use, and for gifts of a personal nature not exceeding $NZ 20 in value. Exports: purchases by tourists at duty-free shops are tax free. Tax is remitted or refunded in full except that in respect of any one shipment, claims of less than $NZ 1 are not accepted.

B. Selective excise taxes

1. See paragraphs 1 to 4 on pages 158/159 of Spec(68)88.

2. Excise taxes apply only to domestically produced goods.

3. Full adjustment of tax is made in respect of materials incorporated in exported goods. No adjustment is made in respect of tax on goods consumed in the manufacture or transport of exported goods.

4. Excise taxes are imposed only on goods produced domestically. However, equivalent imported products are subject to import duties.

The border tax adjustments on exports is the actual amount of tax which has been paid or would have been paid. The valuation used for adjustments on imports is the quantity, with the exception of perfumed spirits and toilet preparations, for which the wholesale value in the country of origin is used as a basis of valuation. The valuation for imports does not include insurance, freight or duty. For exports the basis of valuation is the quantity.

The base applicable to specific duties on imported goods is mainly the same as that applicable to home-produced goods with the exemption of medicaments containing alcohol. In other cases the ton is specified as against a cwt. for imports. The rates of duty on imported goods differ from the rates of excise on home-produced goods on the following tariff items which can be compared with the excise list on page 160 of Spec(68)88:

| 33.06.01 | 24.02.29 |
| 33.04.05 | 24.02.31 |
| 30.03.04 | 24.02.32 |
| 48.10.99 | 22.03.01 |
| 17.01.20 | 22.03.02 |
| 17.02.50 | 22.09.53 |
| 24.02.10 | 22.09.39 |
| 24.02.21 | 22.09.43 |
|           | 22.09.49 |

5. See paragraph 1 on page 158 of Spec(68)88. There is no means of avoidance of payment by firms.

6. See paragraph B.2 on page 161 of Spec(68)88.
7. The adjustment for imported goods can be deferred if the goods are retained in warehouses under customs control. The import duties are paid when the goods are removed from warehouse for sale or for consumption.

8. Does not apply.

9. Exporter: no special provision except for purchases from duty-free shops, but normal procedure (drawback) could apply. Imports: not applicable.

C. Overlapping indirect taxes systems

1. The following goods are subject to both excise and sales taxes: alcohol used in production of perfumed spirits and toilet preparations; spirits and spirituous mixtures, namely, gin, geneva, schnapps and vodka.

2. The foregoing are subject to selective excises when domestically produced only; they are subject to the sales tax whether domestically produced or imported. On export both excise and sales taxes are adjusted in full.

II. CHANGES IN BORDER TAX ADJUSTMENTS

This section does not appear to be relevant to the position of New Zealand which has not changed its system of indirect taxation for many years.

III. MISCELLANEOUS

1. No.

2. The following taxes would affect production and distribution:

- Customs duty $NZ 48.8 million
- Land tax $NZ 58.9 million
- Duty or legal instruments and cheques $NZ 4.4 million

3. No.

4. No. See Spec(68)88, page 158, paragraphs 4(i) and (ii).

5. The taxes subject to border tax adjustments form approximately 21 per cent of total taxation.

6. Increases in export sales of manufactured goods and some animal products qualify for an additional 15 per cent deduction for tax purposes in the hands of the final exporter. The increase is arrived at by comparing the export sales in the first three years of the five years immediately preceding the income year.

7. Export sales promotional expenditure qualifies for a 150 per cent deduction for tax purposes.
8. No provisions for this.

9. New Zealand corporate tax is levied on the overall profits which includes export profits and local profits. In arriving at the amount of taxable income a deduction is allowed for increases in export sales as outlined in 6 above.

10. Does not apply.

11. (a) A non-resident investment company is exempt from social security tax on interest derived from New Zealand provided it derives no income except interest and has no investments or other assets in New Zealand except the principal money from which the interest is derived.

(b) Where the company has other assets in New Zealand e.g. shares, but provided the total assets consist principally of principal money from which the interest is derived it will qualify for exemption from social security tax if it is approved as a development project important to the development of New Zealand. Non-resident investment companies declared development projects in (b) above are entitled to a rebate for income tax purposes of the excess of New Zealand tax over the tax payable in the home country on the New Zealand income.

12. Back year losses may be offset against future profits within a six-year period.

13. Profits on sale of assets (not buildings) in excess of written down values are recoverable for tax purposes.

14. Provision exists for credit allowances for tax paid overseas by New Zealand residents including New Zealand companies on overseas incomes. The credit is limited to the amount of overseas tax or the New Zealand tax on the overseas income, whichever is the less. This means the credit cannot exceed the New Zealand tax rate on the overseas income. Losses incurred by overseas establishments of New Zealand companies are allowable in assessing the taxable income for the year. In other words overseas losses are available against New Zealand profits. This rule does not apply to overseas companies operating in New Zealand in respect of their New Zealand branch profits.

15. Does not apply.

16. Does not apply.

17. Does not apply.

18. Customs duties are refunded (drawback) in full on imported goods subsequently exported in their original state or incorporated in exported goods.