

# GENERAL AGREEMENT ON TARIFFS AND TRADE

## SUBSIDIES

### Notifications Pursuant to Article XVI:1

#### NEW ZEALAND

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

#### I. Export Market Development Taxation Incentive (EMDTI)

##### 1. Background and authority

The EMDTI is designed to encourage the active promotion and marketing of New Zealand goods and services abroad and was announced in the 1979 Budget. Authority is created in the Income Tax Act 1976 and the scheme has a statutory provision for termination on 31 March 1985.

##### 2. Incidence

The incentive is paid as a credit against tax payable at the rate of NZ 67.5 cents in the dollar of qualifying expenditure. (Qualifying expenditure is defined in Section 156F of the Income Tax Act 1976 and is confined to expenditure which is primarily and principally related to the promotion of New Zealand goods and services abroad.) Such expenditure does not qualify as an ordinary deduction for taxation purposes.

##### 3. Cost of subsidy

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

#### II. Export Programme Suspensory Loan Scheme (EPSLS)

##### 1. Background and authority

This scheme is designed to encourage the thorough and co-ordinated marketing overseas of New Zealand processed and manufactured goods and professional services. The EPSLS was announced by the Minister of Overseas Trade on 30 June 1982 and is administered by the Department of Trade and Industry. The scheme represents a diminished form of the Export Programme Grants Scheme (EPGS) which was terminated on 30 June 1982.

2. Incidence

Assistance is paid as a suspensory loan which converts to a grant if the exported fulfils prescribed export sales levels. Eligible programme expenditure is generally the same as for the EMDTI with limits on both salaries and sustenance costs claimable as eligible expenditure. Loans are based on 40 per cent of eligible expenditure up to a maximum of \$NZ 200,000 per applicant. Companies are limited to one target market loan at a time.

3. Cost of subsidy

Budgeted cost for 1982-83 is \$NZ 2.9 Million.

III. Export Manufacturing Investment Allowance

1. Background and authority

This allowance was introduced under the 1978 Budget and provided manufacturers with a deduction from assessable income over and above the existing allowance for depreciation. The scheme terminated on 31 March 1983.

2. Incidence

The rates of allowance ranged from a minimum of 1 per cent to a maximum of 20 per cent according to the proportion of total sales exported. This proportion was determined in the case of manufacturers with existing export sales on the first year, the allowance was claimed together with the two previous years. Where a manufacturer had no proven export record but was planning an investment to undertake export production, this investment plan had to be approved by the Development Finance Corporation if the allowance was to be claimed. In this latter case the allowance was based on the three years succeeding the year of first use.

3. Cost of subsidy

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

IV. New Markets Increased Export Taxation Incentive (NMIETI)

1. Background and authority

The NMIETI was introduced to encourage export sales to new markets and the export of new products to existing markets. The scheme terminated on 31 March 1983. Applications for new market status closed on 31 December 1979. Applicants before this date and who had had new market status approved for their product, could claim for exports over a two-year period commencing no later than 31 March 1981.

2. Incidence

Under the scheme, exporters qualified for an additional 15 per cent deduction from assessable income of the increased for export sales. This was in addition to the IETI.

3. Cost of subsidy

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

V. New Market Development Grant

1. Background and authority

The purpose of this scheme was to encourage New Zealand exporters to develop new overseas markets for goods and specified services. The scheme was administered by the Department of Trade and Industry and terminated on 31 March 1980.

2. Incidence

Provided a non-taxable grant based on 40 per cent of the eligible expenditure incurred. New markets were defined in the same way as for the NIETI.

VI. Export Suspensory Loans

1. Background and authority

To encourage export-orientated investment the Development Finance Corporation administers an Export Suspensory Loan Scheme for the purchase of new plant and machinery to be used substantially for the manufacture of products qualifying for the IETI.

2. Incidence

A grant of 40 per cent of the capital cost of plant and machinery is available. The grant takes the form of a suspensory loan subject to interest at normal commercial rates. Such loans are written off, in full, if an average of 40 per cent of the planned output of the project is exported over any three year period within the first five years.

3. Cost of subsidy

Cost of loans written off during 1982-1983 - \$NZ 4 Million.

VII. Exemption from Sales Tax of some machinery for production

1. Background and authority

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.

## 2. Incidence

Applications can be made under the following categories:

- (a) Machinery from which 40 per cent 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 50,000 (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 per cent 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.

## 3. Cost of subsidy

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

## VIII. Export Performance Taxation Incentive (EPTI)

### 1. Background and authority

Authority for the EPTI is granted in the Income Tax Act 1976 under the following sections: 156A for goods, 156B and D for services, and 156E for tourism. The scheme replaces the IETI which terminated on 31 March 1983, and is intended to compensate qualifying exporters for a proportion of the additional cost they face as a result of protection. EPTI was introduced on 1 April 1980 and has a statutory provision for termination on 31 March 1985.

### 2. Incidence

Payments under the EPTI are made at the rate of 14 per cent of domestic value added. For primary sectors, including forestry, only value added beyond a specific boundary is included in the calculation for the incentive. Export goods are classified in terms of the ratio of domestic value added to f.o.b. export sales and on this basis assigned one of seven bandings. (Bands are lettered A to G). To each binding a specified tax credit applies ranging from 1.4 (G Band) to 11.9 (A Band) cents per f.o.b. export sales dollar. The incentive is paid as a tax credit which is deducted from tax otherwise payable by the exporter. If the tax credit exceeds tax payable the excess is refunded to the taxpayer.

3. Cost of subsidy

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

IX. Increased Exports Taxation Incentive (IETI)

1. Background and authority

Under Section 156 of the Income Tax Act 1976, a taxpayer could claim a deduction from his assessable income for increased export sales of qualifying goods. The scheme terminated on 31 March 1983.

2. Incidence

The IETI provided a deduction from assessable income equivalent to 25 per cent of the value of qualifying export sales over and above an annual average level of export sales known as the "base period". The base period comprised the first three of the seven years immediately preceding the income year for which the claim related. Where there had been no previous export sales, exporters qualified for the deduction of all their qualifying export sales until such time as a base period was established. Exporters could only claim under IETI or EPTI, not both.

3. Cost of subsidy

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