



Meat Industry Association of New Zealand (Inc)

Submission to the Inland Revenue Department
Policy Advice Division

Business Tax Review,
Market Development Tax Credits

30 November 2006

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I: About the Meat Industry Association

1. The Meat Industry Association of New Zealand Incorporated (MIA) is a voluntary trade association representing New Zealand meat processors, marketers and exporters. It is an Incorporated Society (owned by members) that represents companies supplying the majority of New Zealand sheepmeat exports and all beef exports, producing 16 per cent of our nation's exports by value (27 percent of New Zealand's primary sector export revenue). The New Zealand meat industry earned \$5 billion in export revenue in the year ended May 2006 and \$1.22 billion from domestic meat sales in the year ended March 2006.
2. MIA member companies operate approximately 80 processing plants dispersed throughout the country. The plants slaughter and process approximately 24 million lambs, 4.4 million sheep and 4.2 million cattle and calves each year. Ninety percent of this production is processed into value-added products. Approximately 800,000 tonnes or 85% of the production is exported to overseas destinations. Our affiliate members add to the depth of expertise available from the membership, with representation throughout the meat supply chain, including road and rail transport, shipping lines, ports, packaging firms, specialist product exporters, research and technology.
3. The Association advocates on behalf of its members and provides advice on economic, trade policy, market access, employment relations, business compliance costs and technical and regulatory issues facing the industry, with a particular focus on:
 - Food safety trends and developments in importing countries
 - Economic and trade aspects of market access to key overseas markets
 - Major public policy proposals that could impact on industry operations
4. The MIA is also the interface between the meat industry and government (i.e., it is the consultative body referred to in various New Zealand statutes, such as the Meat Board Act 2004, Meat Act 1981 and the Animal Products Act 1999).
5. The Association's mission is to:
 - Provide a forum for consideration of industry-wide commercial, human resource, marketing, and sanitary and zoosanitary issues; and
 - Provide the means of formulating a collective view on issues of industry wide interest, and of conveying that position to government, departments of state, trade bodies, and other appropriate external agencies and organisations.
6. A list of Association members is attached as Appendix 1.

II: Background

7. In July 2006 the government released the Business Tax Review discussion document for public comment. It set out a range of possible business tax initiatives that will help transform the New Zealand economy by enhancing our productivity and improving our international competitiveness.
8. The Government is now seeking further feedback on certain measures put forward in the discussion document, including the design of a market development tax credit.

9. In preparing this submission all members and affiliate members were consulted and asked for input. MIA members may also make individual submissions reflecting concerns relating to their specific operations.

III: Executive Summary

10. MIA supports the concept of market development tax credits.
11. The eligibility and qualifying criteria should be as inclusive as possible based on actual expenditure incurred in the development of existing markets for new products, or new markets for existing or new products.
12. The criteria required to qualify for Market Development Tax Credits should be set out in legislation to provide greater certainty for firms.
13. There should be no restriction on the size of companies qualifying for tax credits.
14. The minimum and maximum qualifying expenditure thresholds should be \$20,000 and \$1.0 million respectively.
15. Specific recommendations are contained in Section VI.

IV: Submission

Definition of Market Development

16. The MIA submits that the definition of market development should include the activities undertaken by a business to expand existing markets through the introduction of new products, or the development of a new market.
17. The definition of new products can be related to such products resulting from a different production process, for example within the meat sector a company may develop a new meat based product which requires different production facilities. Such a development will result in the requirement for a new suite of market development activity including launching the product, promotional activity, market research, in market support etc.
18. MIA supports the exclusion of Australia as a qualifying market on the basis that under Closer Economic Relations, Australia and New Zealand are treated as home markets. This is also consistent with the criteria of the Market Development Assistance Scheme (MDAS) administered by New Zealand Trade and Enterprise, and the Australian equivalent, the Australian Export Market Development Grant Scheme (EMDG) administered by Austrade.
19. MIA agrees "market development" should consist of the activities undertaken by a firm to develop a market presence overseas, in order to sell goods and services. It should not include the cost of selling those goods and services.
20. MIA also agrees "export" should be defined as "the exporting of goods and services to overseas countries if those goods and services are consumed overseas".
21. MIA supports having criteria set out in legislation. This would provide greater certainty for firms because once they met the legislated qualifying criteria they would automatically qualify for and receive the tax credit. The credit would therefore be more effective than a grant in being

integrated into (and influencing) a firm's investment decisions and would be more administratively efficient than proceeding through the grant application process.

Eligibility Criteria

22. Eligibility criteria should be as inclusive as possible, taking into account the variety of firms that engage in exporting. The criteria should be easily understood and, when applied, they should not impose unnecessary compliance and administrative costs.
23. MIA submits eligibility criteria should **not** take into account the size of the firm and therefore should **not** restrict eligibility to companies with a turnover of \$50 million or less.
24. MIA also submits that restricting tax credits to firms with a turnover of \$50 million or less would eliminate joint ventures between members for the development of a market which no single member is willing to develop because of the risks. This would prohibit a collaborative approach to developing these markets.
25. This rationale also applies to the MDAS scheme, and MIA submits the \$50 million turnover restriction within this scheme should also be removed.
26. Larger firms will typically have a track record in export activities and as a result are more likely to undertake market development in a more targeted way, increasing the efficiency of the expenditure.
27. Larger firms, and indeed members of the meat industry generally, currently export to a large number of countries. Those countries not currently exported to are either uneconomic for a variety of reasons, or they carry a significantly higher risk profile. Examples of the latter would be Russia and parts of the African continent.
28. The Food and Beverage Taskforce in its Discussion Paper¹ noted "Penetrating emerging markets will require substantial capital investment, and it will take time to get into profit. In addition, market leaders in the developed world are also diversifying into these emerging markets, so competition will be intense. Markets in the developing world tend to be price sensitive, so it will be hard to demand a price premium based on quality, reliability, or food safety."
29. Penetrating emerging markets is an important contributor to New Zealand's economic transformation, but is more difficult, and carries higher risk profile. This profile is independent of the size of the firm.
30. MIA agrees all New Zealand tax resident businesses should be eligible for the credit regardless of whether they are undertaken in a corporate or other business structure. The definition of business should be the tax definition which includes any profession, trade, manufacturer or undertaking carried on for a pecuniary profit.
31. MIA also agrees the credit should be available for developing a market for goods and services of New Zealand origin. The definition of "place of origin" used in the guide to interpreting the Fair Trading Act could be used to determine whether goods qualify for the tax credit, that is:

". . . a place of origin can be defined as the country or region where the product was created in its final form from its raw materials or constituent parts. In other words, it is the country or region where the product's 'essential quality' was created. It is not necessarily

¹ Food and Beverage Taskforce discussion Paper, A Focus on the Future, November 2005, pp9

the place where the most money was spent on a product – and it is not the place where only final assembly or packaging was done.”

32. Similarly, services should be eligible if they fall within the same “essential quality” criterion as referred to in 28 above.

Eligible expenditure

33. MIA submits the tax credit should only be available for expenditure that is ordinarily deductible for tax purposes. The timing rules in the Income Tax Act should also apply to the tax credit, which should be available only in the year in which the deduction for the qualifying expenditure is allowed.
34. MIA agrees with the discussion document that the Market Development Tax Credit scheme should be set up in a manner that is consistent with the MDAS programme which covers the following categories of expenditure:
- in market visits;
 - attendance at trade shows and events;
 - bringing overseas buyers to New Zealand;
 - advertising and promotional expenditure (excluding sponsorship);
 - time-based overseas representation;
 - marketing material;
 - trade shows and events; and
 - market research and market strategic development, if it is related to refining an approach to a market.
35. MIA submits that the tax credit claimed should relate to actual expenditure for the qualifying categories, up to a specified amount. This should be set at a realistic level, reflecting the costs associated with the development of export markets.
36. MIA submits that where expenditure meets the test of ordinary deductibility for tax purposes, it should qualify for the tax credit, including the expenditure of a spouse traveling on business.
37. Eligible expenditure should also include the costs of establishing an office or sales subsidiary in an overseas market, but this should not be extended to the establishment of plants as this would be considered to be business as usual, and would also be excluded under the definition of “place of origin” as referred to in 30 above.
38. Eligible expenditure should also include website development costs specific to the development market, including translation of the general website into foreign language.
39. MIA submits that the definition of eligible expenditure should be sufficiently clear that by default all expenditure that cannot be justified as eligible does not qualify for tax credits, and therefore does not need to be prescribed or defined.

Minimum and maximum expenditure limitations

40. MIA agrees the minimum threshold level as indicated in the discussion document is appropriate set at \$20,000, which is a level which will allow small business would be able to claim, but is also a level which demonstrates a commitment to make a viable and sustained entry into a new market.

41. MIA submits there should be no maximum limit for qualifying expenditure. Not only does this lead to increased complexity due to establishing rules for related companies, but such a limit would be inconsistent with the rest of the Income Tax Act, which does not place limits on deductions, or the amount of tax a taxpayer has to pay.

V: Conclusions

42. MIA supports the concept of Market Development Tax Credits, as summarised in the following recommendations.

VI: Recommendations

43. "Market development" should consist of the activities undertaken by a firm to develop a market presence overseas, in order to sell goods and services. It should not include the cost of selling those goods and services.
44. "Export" should be defined as "the exporting of goods and services to overseas countries if those goods and services are consumed overseas".
45. The criteria required to qualify for Market Development Tax Credits should be set out in legislation to provide greater certainty for firms. Once they met the legislated qualifying criteria they would automatically qualify for and receive the tax credit.
46. It is recommended there be **no** restriction based on company turnover. Larger more established companies are likely to be developing more marginal markets, with a higher risk profile, which is consistent with the Food and Beverage Taskforce discussion paper.
47. Consideration should also be given to removing the \$50 million turnover restriction contained within the MDAS scheme.
48. All New Zealand tax resident businesses should be eligible for the credit.
49. The definition of "place of origin" and "essential quality" used in the guide to interpreting the Fair Trading Act should be used to determine whether goods qualify for the tax credit.
50. That qualifying expenditure for the tax credits is generally consistent with the definition contained within the MDAS programme, and covered on an actual expense basis. Establishment costs incurred setting up, but not maintenance of, sales offices or sales subsidiaries in the overseas market, would be included.
51. Expenditure excluded from qualifying for the tax credit should include salaries of employees visiting the markets, costs associated with the provision of samples, specific expenditure associated with other government assistance.
52. The minimum and maximum thresholds for qualifying expenditure should be \$20,000 and \$1.0 million respectively.

VII: Contact Details

53. For any queries relating to this submission, please contact Rowan Ogg on 04 495 8374 or email rowan.ogg@mia.co.nz

VIII: Appendix 1 - MIA Members and Affiliate Members (year commencing 1 July 2006)

Members	Head Office Location
Advance Marketing Ltd	Auckland
AFFCO New Zealand Ltd	Hamilton
Alliance Group Ltd	Invercargill
ANZCO Foods Ltd	Wellington
ANZCO Green Island Ltd (ANZCO group)	Dunedin
ANZPAC Foods Ltd	Auckland
APJ Meats Ltd	Mapua
Auckland Meat Processors Ltd	Auckland
Ballande New Zealand Ltd	Auckland
Bernard Matthews New Zealand Ltd	Waipukurau
Blue Sky Meats (NZ) Ltd	Invercargill
<i>Brookland (NZ) Ltd (in receivership)</i>	<i>Auckland</i>
Canterbury Meat Packers Ltd (ANZCO group)	Ashburton
CMP Rakaia	Rakaia
Columbia Exports Ltd	Auckland
Crown Marketing Ltd (ANZCO group)	Wellington
Crusader Meats New Zealand Ltd	Benneydale
Dairy Meats NZ Ltd (AFFCO group)	Auckland
Davmet New Zealand Ltd	Napier
Fern Ridge Ltd	Napier
Frasertown Meat Company Ltd	Auckland
Garra International Ltd	Christchurch
Glovers Foods Ltd	Auckland
Greenlea Premier Meats Ltd	Hamilton
Harrier Exports Ltd	Auckland
Horizon Meats New Zealand Ltd (wholly owned subsidiary of Blue Sky Meats (NZ) Ltd)	Auckland
Hygrade Casings Company (wholly owned subsidiary of New Zealand By-Products)	
Lamb Packers Feilding Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd)	Waipukurau
Land Meat (NZ) Ltd (AFFCO group)	Hastings
Lanexco Ltd	Tauranga
Lowe Corporation Ltd	Hastings
Malvern Meat Processors Ltd (AFFCO group)	Malvern
Mathias International (Mathias Meats NZ Ltd)	Auckland
New Zealand By-Products	Havelock North
Pilot (NZ) Ltd	Christchurch
PPCS Ltd	Dunedin
Progressive Gisborne Ltd (wholly owned subsidiary of Bernard Matthews NZ Ltd)	Waipukurau
Progressive Meats Ltd	Hastings
Riverlands Ltd (ANZCO group)	Eltham
South Pacific Meats Ltd	Invercargill
Tara Exports Ltd	Auckland
Taylor Preston Ltd	Wellington
Te Kuiti Meat Processors Ltd	Te Kuiti
Towers Thompson (New Zealand) Ltd	Christchurch
Universal Beef Packers Ltd (UBP)	Te Kuiti
Wallace Corporation Ltd	Waitoa, Waikato

Affiliate Members	
AgResearch-MIRINZ Centre	Hamilton
Aon New Zealand Limited	Wellington
Axis Intermodal (Ports of Auckland Ltd)	Auckland
Carter Holt Harvey, Packaging	Auckland
CentrePort Wellington	Wellington
Energy for Industry (ex Meridian Solutions)	Wellington
Hamburg-Sud New Zealand Ltd	Auckland
Hapag Lloyd (New Zealand) Ltd	Auckland
Maersk New Zealand Ltd	Auckland
Oceanic Navigation Ltd	Auckland
Port of Napier	Napier
Port Otago Ltd	Port Chalmers
Port Taranaki Ltd (previously Westgate Transport Ltd)	New Plymouth
ProAnd Ltd (Meatek Ltd)	Feilding
Rissington Breedline Ltd	Napier
Sealed Air (New Zealand), Cryovac Division	Wellington
Thompson Clarke Shipping Pty Ltd (ANZ Marketing Representative for the Port of Los Angeles)	Australia
Vero Marine Insurance	Auckland