



Meat Industry Association of New Zealand (Inc)

Submission to the Inland Revenue Department
Policy Advice Division

Business Tax Review,
Research and 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 research and development tax credit scheme.

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 research and development (R&D) tax credits, to foster an increase in research activities in order to improve New Zealand's competitive position internationally.
11. MIA generally agrees with the definition of "R&D" as contained in the issues paper, and repeated in 16 below, but submits the definition should also envelope research into areas such as energy conservation techniques or extending the shelf life of meat as examples of qualifying research.
12. The definition of eligible claimants, including those of foreign ownership, is appropriately inclusive of entities likely to utilise the tax credits, to the benefit of New Zealand generally through the "spillover" effects of research carried out locally.
13. MIA also agrees that qualifying R&D should not be restricted to in-house research, but may be sub contracted provided measures are in place to prevent double access to the concessions.
14. Organisations receiving voluntary contributions or levy payments which are then applied to R&D activities should also be eligible for the tax concession.
15. MIA generally agrees with the definition of eligible expenditure, but additionally submits that royalties and interest, where incurred as a real cost in order to proceed with the R&D should also be included in the definition of eligible expenditure.
16. Specific recommendations are included in Section VI.

IV: Submission

Definition of Research and Development

17. MIA generally supports the proposed definition of R&D as promulgated in the officials' issues paper R&D tax credits, viz:
 - (1) The systematic, investigative and experimental activities that either seeks to resolve scientific or technological uncertainty or involve an appreciable element of novelty and that are carried on for the purposes of:
 - acquiring new knowledge or
 - creating new or improved materials, products, devices, processes or services;
 - (2) Any other activities required for, and integral to, the carrying on of the activities in (1).
 - (3) This definition should not be so restrictive so as to exclude R&D on such topics as energy conservation or extending the shelf life of meat from qualifying. Such research should qualify on the grounds that it seeks to resolve scientific or technological uncertainty.

18. Such a definition includes:
- (a) basic research, namely, work undertaken for the advancement of scientific knowledge without a special practical application in view,
 - (b) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, or
 - (c) experimental development, namely, work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes, including incremental improvements.
 - (d) work undertaken by or on behalf of the research commissioner with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing, where the work is commensurate with the needs, and directly in support of the core research programme.
19. MIA agrees this definition should exclude:
- (a) prospecting, exploring or drilling for, or producing, minerals, petroleum, natural gas or geothermal reserves; (but should include for example R&D to develop new exploration techniques);
 - (b) research in social sciences (including economics, business management and behavioural sciences), arts or humanities;
 - (c) routine collection of information;
 - (d) activities associated with complying with statutory requirements or standards, such as the maintenance of national standards, the calibration of secondary standards and routine testing and analysis of materials, components, products, processes, soils, atmospheres and other things;
 - (e) any activity related to the reproduction of a commercial product or process by a physical examination of an existing system or from plans, blueprints, detailed specifications or publicly available information;
 - (f) quality control or routine testing of materials, devices, products or processes;
 - (g) pre-production activities, such as demonstration of commercial viability, tooling-up and trial runs;
 - (h) the making of cosmetic modifications or stylistic changes to products, services, processes or production methods;
 - (i) market research, market testing or market development, or sales promotion (including consumer surveys);
 - (j) management studies or efficiency surveys; and
 - (k) commercial, legal and administrative aspects of patenting, licensing or other activities.
20. It should be sufficient for the R&D to be carried out for the purpose of acquiring new knowledge, or creating new or improved products to qualify for the tax credit. It would not be necessary for the R&D to be successful.
21. To qualify for the tax credit by meeting the definitions of “scientific or technological uncertainty”, the outcome of the R&D could not be known in advance on the basis of current publicly available knowledge, and the outcome can be only be determined by a programme of systematic investigative and/or experimental activities.

22. Such a definition does not exclude innovations which are in existence, but not publicly available, such as those held as trade secrets, nor does it exclude work being done simultaneously by independent researchers.
23. Other activities required for, and integral to a specific R&D project, including for example, planning activities, analysis and modeling of results, data collection directly required for the R&D project, other investigative work in the early stages of the project and the development of specialist computer software, would also qualify for the tax credit.

Who should qualify for the tax credit?

24. MIA agrees the eligibility criteria should be as inclusive as possible and available to all businesses regardless of the legal form of the business, including those deriving exempt income. This will create the same opportunities for all entities to undertake R&D, and minimise compliance costs as companies will not need to restructure in order to qualify for the tax credits.
25. Eligibility should also extend to foreign firms on terms similar to those contained in similar schemes in foreign jurisdictions, where the R&D should be carried out in the country providing the concession, there must be a national benefit from the R&D, and the intellectual property resulting from the R&D is held in the country providing the concession.
26. MIA also agrees with the minimum threshold of \$20,000 to avoid disproportionate compliance and administrative costs being incurred on small claims.
27. MIA submits that R&D carried out overseas, including the other activities required for, and integral to a specific R&D project outlined in 23 above, should be eligible for the tax credits for up to 10% of the total cost of the project. It is acknowledged that benefits typically accrue to the location in which the R&D is carried out and it is therefore sensible to restrict the tax credits primarily to New Zealand based research costs.
28. To avoid double access to the tax credits, where R&D is subcontracted to a third party, MIA agrees the concession should vest with the company commissioning the R&D, which controls the quantum of R&D undertaken, bears the financial and technical risks, and owns the project results. This will include entities that fund R&D for industry purposes, with funds collected from businesses or levy payers, for example, Meat and Wool New Zealand.

Eligible expenditure

29. MIA agrees with the general principle that the tax credit should apply to expenditure that is deductible or amortisable under the Income Tax Act, and the timing rules would be consistent with those in the Act.
30. MIA agrees that all remuneration paid to employees or contractors, including remuneration overheads such as holiday pay, ACC etc., which are directly incurred for the purpose of the R&D and the R&D support activity, should be eligible.
31. MIA also agrees eligible expenditure would include depreciation on tangible depreciable assets used in conducting the R&D, including pilot plant and prototypes, to the extent that expenditure had been capitalised. Where such assets are partly used for R&D, depreciation qualifying for the tax credit should be allowed for the proportion of the time the asset was actually used for the R&D against the total actual usage.
32. Where an asset used in conducting R&D is sold or no longer used, the tax credit should also apply to any loss realised on the sale or disposal of the asset, and similarly there should be a

claw back on any profit. Where the asset was only partly used for R&D, this principle would apply to the proportion the asset was used in the R&D.

33. Deductible expenditure incurred directly in undertaking R&D activities, including low cost depreciable assets, would be qualifying expenditure. Such costs would include travel and accommodation, specific training associated with the R&D, overheads including administration, repairs and maintenance, cleaning, security, rates, communications, insurances and leases of buildings, plant and equipment and consumables
34. MIA also agrees net expenditure incurred on feedstock for R&D purposes, for example the input cost of meat and other ingredients, less the value of the output would also be qualifying expenditure.
35. When the performer of the R&D and the commissioner of the R&D are associated, MIA agrees the eligible expenditure would be the lesser of the amount paid under the contract, or the eligible expenditure of the R&D performer. When they are not associated, the eligible amount would be the amount paid under the contract.
36. MIA agrees that ineligible expenditure, includes the expenditure for research in relation to which a government grant is provided, together with the required co-funding, donations and accounting and legal fees in calculating what is R&D, but submits that royalties paid in relation to using proprietary intellectual property, and interest paid on borrowings to purchase assets utilised in the R&D should come within the definition of eligible expenditure.

V: Conclusions

37. MIA supports the R&D tax credit scheme in principle, and considers it will contribute materially to improving New Zealand's international competitiveness.

VI: Recommendations

38. The definition of Research and Development be agreed as set out in the Research and Development Tax Credits issues paper dated November 2006
39. Eligible claimants should include all businesses regardless of the legal form of the business, and spend a minimum of \$20,000 in each year a claim is made.
40. The tax credit would apply to R&D carried out overseas for up to 10% of the total cost of the project.
41. Foreign owned companies doing R&D in New Zealand would be eligible for the concession.
42. Eligibility for the tax credit would accrue to the party commissioning the R&D, rather than the party providing the services.
43. All expenditure directly attributable to R&D would be eligible, including remuneration and associated on costs, interest and depreciation on tangible assets, overheads, consumables, net feedstock and royalties.

VII: Contact Details

44. 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