# Food for thought

DECEMBER 2017

# Contents

# Property tax incentives - capital allowances

## There can be significant cash tax savings made from understanding what capital allowances are available to your business.

### What are capital allowances?

Capital allowances are amounts a business can deduct from its profits for qualifying capital expenditure before calculating its overall corporation tax. As depreciation isn't allowable for tax, capital allowances compensate for this.

After staffing costs, capital expenditure is one of the major overheads of the agri-food industry which requires significant annual investment as the industry invests in facilities to increase productivity, improve efficiency and meet the constantly changing regulatory requirements of the industry.

As owners and occupiers of these structures, agri-food companies are entitled to capital allowances on both their buildings and plant and machinery assets under the current tax legislation.

### How much of our capital expenditure qualifies for capital allowances?

Expenditure incurred by agri-food companies on the construction or acquisition of a property can attract a substantial amount of capital allowances given that most modern buildings have a high content of plant and machinery.

The proportion of the qualifying cost can vary considerably depending on the building age and specification.
The qualifying cost of a new building is expected to range between 10% - 40% of the construction cost. In the case of a premises fit-out, the qualifying cost is expected to be in the range of 30% - 70%.

### Industrial building allowances vs capital allowances

However, our experience shows that many businesses are not optimising the tax relief available to them in relation to their capital expenditure on property assets, as expenditure qualifying for plant & machinery is regularly being pooled into the Industrial Building Allowances pool (IBA's). This means many businesses are missing out on the accelerated tax benefits that are available through optimising the capital allowances claims on projects.

Qualifying plant and machinery which is pooled into the IBA's pool and typically claimed at 4% per annum over 25 years.

However, qualifying plant and machinery could attract tax relief much quicker if a detailed capital allowances review is undertaken. The allowances are spread over eight years at a rate of 12.5% per annum.

## Case study

**Our capital allowances team provided a detailed review of a new state of the art food processing facility with a development cost of circa €2 million.**

By undertaking a reclassification of expenditure, our client was able to benefit from tax savings in excess of €200,000.

## Accelerated Capital Allowances (ACA)

The Accelerated Capital Allowance (ACA) is applicable to energy efficient equipment. ACA is based on the existing capital allowances tax structure or wear and tear allowance, for plants and machinery. Claiming the ACA is carried out the same way as for the standard capital allowances.

Organisations who invest in eligible energy efficient capital equipment can deduct the full cost of the equipment from their profits in the year of purchase. This reduces the taxable profit in year one by the full cost of the equipment.

With the growth in the development of anaerobic digesters, there is scope to include these costs within this scheme. We can help guide you through the certification process which can make you eligible to claim these ACA's.

## How can we help?

Grant Thornton's specialist capital allowances team can ensure your tax relief claims are both optimised and professionally managed.

Our advice compliments business planning, business change and business as usual activities, improving the bottom line and helping you unlock business opportunities.

**Tax compliance support**
The provision of specialist capital allowances input and support your tax teams and retained tax advisors.

**Transaction support**
Providing capital allowances advisory support during the legal due diligence process, particularly in relation to occupational leases, landlord contributions, purchases and disposals.

**Project and development support**
Preparation of capital allowances claims for property developments, refurbishments and fitting out projects.

**Strategic consulting**
Implementation of capital allowances strategies including the development, design and delivery of capital allowances systems and processes for clients with large capital expenditure programmes across multiple locations.

**Historic capital expenditure audits**
Analysis of historic capital expenditure and capital allowances claims including the identification and retrospective recovery of unclaimed tax relief.

**ACA planning**
Assisting trading companies to invest in qualifying energy efficient technologies for their business.

**Revenue negotiation**
Undertaking all necessary negotiations to reach a successful conclusion to the submitted capital allowances claims.

## The benefits

- realise cash savings and cash flow benefits;
- reduce direct and indirect business costs associated with managing your tax obligations;
- integrate strategies and services so that they can be delivered through a single point of contact;
- delivery by a professionally qualified team with industry leading expertise;
- national coverage across all property and industry sectors; and
- sharing innovation that helps you gain a competitive advantage.

At Grant Thornton we have a specialist capital allowances team with significant experience in the research, preparation and negotiation of capital allowances claims in respect of high profile and large value projects both in Ireland and the UK. Our people are dual qualified tax and surveying specialists with significant experience in this area of taxation.

Our specialist team enables us to consistently provide the optimal capital allowance position for each party to a particular transaction. Our combined focus is consistent high quality deliverability. Our client centric approach is based on clear communication, all encompassing and regular client engagement, with partner led advice and project direction always available. Our consultants approach each client with a multi-dimensional outlook, embracing, business planning, economic and market change, day-to-day business activity and improving investment yield.

# Sugar tax

In the recent budget, it was announced that Ireland would be placing a tax on ready to consume sugar sweetened drinks as a measure to help reduce public obesity levels. It is very well documented that obesity is a serious public health issue, with incidences of obesity in Ireland doubling in the past 20 years.

In implementing this tax, Ireland joins countries such as France, Mexico, Finland and Fiji among many others that also have taxes on sugar sweetened drinks.

This crisis represents not only a health issue, but an economic one. Research in 2014 by National University of Ireland Galway has suggested that obesity accounts for between 1% and 9% of total healthcare costs. In the same study, it was estimated that the total cost to the economy of obesity was €1.16 billion[1].

With trends like this set to continue, and with childhood obesity being especially worrying, the Irish government has introduced the tax on sugar sweetened drinks to help combat this as part of the wider 'healthy weight for Ireland' programme[2]. Recent committee and report stage amendments to the Finance Bill have stipulated that any revenue generated by this tax is to be ring fenced for tackling childhood obesity, and that after the tax has been in place for a year, the Minister for Finance will produce a report detailing its effectiveness and whether any non-tax alternatives exisexist[3 4].

1 The Economic Cost of Overweight and Obesity in Ireland, Dr. Anne Dee 2014
2 ntroducing a Tax on Sugar Sweetened Drinks, Heath rationale, options and recommendations October 2016
3 Finance Bill 2017 Committee stage amendments
4 Finance Bill 2017 Report Amendments

## Filing requirements and payment of tax

The tax will be introduced in April 2018 pending state aid approval at around the same time as a similar tax being introduced in the UK. The tax will apply to any drink with a sugar content greater than 5g per 100ml and the tax will be charged according to the rates below:

| Sugar content | Rate of tax |
|---|---|
| At least 5 grams per 100 millilitres but less than 8 grams per 100 millilitres | €20 per hectolitre (100 litres) |
| 8 grams or more per 100 millilitres | €30 per hectolitre (100 litres) |

The tax will be charged at the time the sugar sweetened drinks is first supplied in the State by a supplier and the supplier must pay the tax. Based on this, suppliers will be obliged to register with Revenue prior to making a supply of the sugar sweetened drinks. In addition, a month after the end of an accounting period, suppliers will also be required to file a return with Revenue detailing the following:

- they supplied; and
- that would result from the preparation of the quantity of concentrated sugar sweetened drinks supplied by the supplier in that period.

For Irish producers of sugar sweetened drinks  who export their products, a relief from the tax should be available. Subject to certain conditions, relief will be given to a registered exporter in respect of any sugar sweetened drinks that are shown to the Revenue's satisfaction to have been supplied outside the state by the exporter[5].

5 Finance Bill 2017

## Challenges and opportunities

They may choose to absorb it themselves, it is believed that this would produce no meaningful health benefits and one report from the UK estimated that this would cost UK companies £520 million per year. The next option is for them to pass the tax on to the consumer. This would be more likely to produce health benefits[6], as the cost of sugar sweetened drinks would rise and this may discourage people from buying them. Is this feasible commercially?

A third option is for manufacturers to reformulate their drinks to reduce sugar content. This would also produce health benefits, and early indications would suggest that it may be a popular strategy. A number of well-known energy drinks and sugar sweetened drinks have altered their formulas recently so that total sugar content is less than 5g per 100ml.

This strategy does not come without certain health issues of its own. Companies seeking to reduce the sugar content of their products may instead use artificial sweeteners. Use of artificial sweeteners is how many diet drinks are sweetened. These have been shown to lead to weight loss in previous studies[7], although others have shown that low-calorie sweeteners can alter gut bacteria levels and lead to higher blood sugar, a precursor to type 2 diabetes[8].

Companies that decide to reformulate their products could be able to avail of a number of tax reliefs, such as the Knowledge Development Box (KDB) incentive and the R&D tax credit.

Ireland's R&D tax credit system is a major benefit to both multinational companies and SMEs operating in Ireland. The R&D tax credit allows companies performing certain types of R&D to potentially claim a refund of up to 25% of costs incurred. The KDB was designed to promote innovation and provide an incentive whereby profits arising from patented inventions, copyrighted software and certain other asset classes can be effectively taxed at a reduced rate of 6.25%.

6 Veerman, L. (2017) The impact of sugared drink taxation and the industry response, The Lancet, 2, p 2-3
7 Rogers et al. (2016) Does low-energy sweetener consumption affect energy intake and body weight? A systematic review, including meta-analyses, of the evidence from human and animal studies. International Journal of Obesity, 40, p 381-394
8 Suez et al. (2014) Artificial sweeteners induce glucose intolerance by altering the gut microbiota, Nature, 514, p 181-188

# InFocus with Dr. John Teeling

John Teeling may be considered by some as the father of the Irish whiskey renaissance. He lectured in Business Administration at University College Dublin and developed a series of mining and oil exploration companies. He currently chairs oil, diamond and zinc explorers.

In 1986 Cooley was set up in County Louth followed 19 years later with the re-opening of the long closed Locke's Distillery in Kilbeggan. The venture took 11 years to make a profit and 15 years to payback but changing tastes in the early 2000s favoured Irish whiskey and sales boomed. Cooley was bought by Beam/Suntory in early 2012. From sales of 2.5 million cases in 1986, Irish whiskey sales are now 10 million cases and growing at double digit rates. There was one company in 1986, Irish Distillers, distilling in Cork and Antrim. Now there are 20 plus distilleries built or planned. John has set up five of these and his sons the sixth, Teelings Distillery. His current interest in the whiskey industry rests with Great Northern Distillery based in Dundalk, which he founded in 2012.

**Q John, you've quite an impressive bio – can you tell us how it all began?**

**A** I started my trading career early at the tender age of 12 at home with the guys on the road. We would play marbles, which I would win and then sell back to the guys for 3pence. I also loved Kimberley and Mikado biscuits. I would buy a pack, sell then individually for a price that would cover the cost of buying the pack and I then could eat the rest myself at no cost.

My father died when I was 14. I was the eldest of four children and had to step up to help run the family insurance agency and money lending business after my father's death. It was a wet November day in 1960 that I reflect on as a defining moment for me. I had to go on a job to collect money, I was cycling my bike, cold and wet, the journey was all uphill and I didn't want to do it. However, I couldn't go home to my mother without doing the call. So I just forced myself to do it. I did what had to be done, despite the situation and for me nothing has been as difficult ever since, even though he has done okay.

Scholarships to UCD and then Wharton School of Finance in the US gave me a grounding in business. While in UCD I got involved in share trading and was very active in this area from 1972-1986. I used the Benjamin Graham Model to trade shares (net, net, asset model). It is the same model as Warren Buffet uses but in my mind he doesn't use it to its full potential, as he may not be a true believer.

My first start up was in 1983, with an exploration mining venture called Minquest Resources which took various private equity stakes in Kenmare, Avoca and some others. My interest in the mining and energy resources area stems from the thrill I get from being involved and the potential there is to make a huge discovery which is so rare. It keeps me young!

My interest in whiskey began while doing my Doctorate while in Harvard in 1970. I chose to write a thesis on how Irish whiskey was marketed in the US. Will completing this I saw the fall that had taken place in the Irish whiskey industry during the ages and thought I could build a distillery to reinvigorate this market. It was not until 1986 that I managed to source the funds to build one, Cooley Distillery.

**Q In the past you've listed four things that every entrepreneur needs as:**

- **an idea;**
- **resources;**
- **the ability to deal with uncertainty; and**
- **the determination and energy to see it through.**

**Do you think that each of the four has equal weighting?**

**A** The critical requirement is the idea, vision or concept. It has to be something you believe in totally and absolutely. Without this, there is no enterprise.

If you haven't got the drive and belief in your own idea to make it happen it won't work. You need that fire in your eyes. Resilience is also key, as there will be ups and downs and you must muddle through.

An occasion I clearly remember which required resilience was with Cooley Distillery in the 1990s. We has relied on BES funding to support the growth of the business as there were limited forums at the time to raise funds. In the early 1990s the government withdrew this type of funding leaving us with no ability to raise funds.

We had to take a hard look at the business. We decided to stop distilling but were lucky enough that we had some mature whiskey to sell which helped cash flow. However, this decision did impact on our growth and expansion plans at the time but allowed the business to continue.

**Q Resources can be sourced externally but an idea, the ability to deal with uncertainty and the determination are internal characteristics, do you think that entrepreneurs are born not made?**

**A** I truly believe that there is an entrepreneurial gene or some differentiating factor in certain people when they are born. There is a saying "one half of 1% of the population are entrepreneurs but nobody knows which half". As I have gotten older and have gained experience in various ventures I have come to believe this statement really is true. My advice to entrepreneurs in business are two words – *Do it!*

**Q Ireland exports the vast majority of its agri-food produce, however, most of this is exported as raw material/ingredients/own label products. Why have Irish agri-food companies struggled to build globally recognised brands?**

**A** Food at consumer level is an FMCG (Fast Moving Consumer Good). This industry is usually a brand intensive, marketing intensive oligopoly. Most routes are dominated by a few multinationals. It is so hard to create a niche and compete against the multinationals given their buying power. The challenge is route to market. To get on the shelf and shelf rotation requires brand recognition. These businesses need massive resources and time.

I am not a brand believer, my sons are. Twenty years ago in Cooley it was estimated that it could cost up to €100 million and take at least a decade to develop a brand in whiskey. I applaud the success that Jack and Stephen are having with the Teeling brand. Their strategy is marketing intensive, costly with no guarantee of success. They have made giant strides.

**Q What do you think are the key success factors in building and scaling a global brand?**

**A** I am in awe and admiration of Kerry and Glanbia, yet you ask how much of their sales are their own brands? For me joint venturing is the best way to build scale but you have no control over the brand or the route. If the business hasn't got the scale you need to join-up with the larger companies, who may not necessarily have the innovative ideas of your business but who can provide an access route to the market. The risk is the larger entities may look to take over your brand and then you have a choice to make. Being a finance person, my view is that at that stage it is good to consider taking some cash off the table.

There is also the conflict between brand and own label to consider. Own label gives you the cash flow, possible scale and the discipline of meeting exacting standards which helps your business to grow but again you don't have control, certainty of sales and are not receiving a brand premium.

You need to be able to differentiate your branded versus own label product. In the whiskey industry if it is coming from the same distillery, this can be done by using different pots and casks and altering the manufacturing process.

**Q The US market is seen as a cash cow currently for this product category but where else do you see opportunities for the growth of Irish whiskey? Is there a risk tastes and trends could change in the US drinks market?**

**A** I don't believe for a second that the US is a cash cow for Irish Whiskey. It is extremely expensive to market there. The attractions are English speaking, fast growing and cultural similarities. It will be a graveyard for some labels. The reason being it takes about 18 months to get established, before you know your market and can determine your repeat sales. This timeline requires large resources to fund.

In my view Eastern Europe, Asia (Thailand, Philippines, Taiwan), Africa (South Africa and West Africa) all have big potential for the whiskey industry.

**Q As Brexit looms it looks increasingly certain that no matter the outcome trading with the UK will become more expensive. This may make Irish whiskey more cost competitive than scotch whisky in mainland Europe. Should Irish producers look to capitalise on this and develop a peated/smoked Irish whiskey as direct competitor to scotch?**

**A** Firstly, peated malt is about 10% of malts which are about 15% of total whiskey sales, i.e. 1.5% of overall sales. Secondly, there is a peated Irish malt, Connemara, with more to come from us in GND, but it will always be a segmented offering.

I have little concern over Brexit. The weakness of sterling does not help but the UK is a small market for Irish, worse is the impact on US sales where cheaper scotch brands try to compete with Irish whiskey. Barriers into the EU from the UK would help the Irish in Europe. Irish whiskeys are premium so price is secondary. We will never compete cost wise with Scotch, nor should we.

**Q Irish whiskey once dominated the global spirits category before a perfect storm of WWI, the introduction of blended whiskey, fires, the war of independence and prohibition caused its demise. Today Irish whiskey is the fastest growing spirit in the world. What does it need to do to maintain this momentum and dominate the global spirits category once again?**

**A** Irish distillers refused to accept that a 94% strength alcohol mixed with malt could be called whiskey, ie blended whiskey. Irish distillers almost all died for this belief. Irish whiskey fell from 60% of world sales to 2% of Scotch sales. It is now back to about 8% of Scotch. It will continue to grow at a faster pace than Scotch simply because Irish whiskey appeals more than Scotch does to young drinkers and in particular to young female drinkers. The reason being modern drinkers like a sweeter drink. There has been a shift away from beer due to calories, Irish whiskey is sweeter and lighter hence attracts female drinkers. What you drink in your thirties, you tend to stick with so the future looks bright.

**Q At the start of this interview we asked you where it all began. You've had an illustrious career that has spanned a number of industries. What's next for John Teeling?**

**A** What next? I have more opportunities now than ever. I don't have much time as I am managing the marketing side of GND until Q2 2018, when a marketing team will join me in the business. I am acting as an executive in four exploration cos, I have appointed two CEO's and am looking for two more in the Middle East. This will give me more time to think and dabble more in exploring further what can be done with whiskey.

# Lean diagnostic review – Horticulture sector

Brexit and the weakening of sterling against the euro presents many challenges to organisations, particularly those that are export led. In this environment, business leaders must ensure they are taking practical steps to mitigate against known and unknown risks.

The mushroom sector is particularly exposed to the UK market and has already been impacted by recent currency volatility. Grant Thornton have identified three ways in which business can address the threats posed by Brexit:

- market expansion;
- product premiumisation; and
- cost containment.

For the mushroom sector, pursuing alternative markets can be challenging given the relatively short shelf life of the product. Retailers and consumers are demanding fresh products and an additional day in transit can have a severe impact on the value of horticulture products.

Whilst there are some opportunities for product premiumisation they require significant investment. Industry leaders, Monaghan Mushrooms, have launched a vitamin D enhanced mushroom that commands a premium price. However, even after years of consolidation, the mushroom industry remains fragmented and many growers do not have the sufficient capital to invest in R&D to realise the premiumisation opportunity.

Reducing the cost at which a product is produced, directly impacts a company's bottom line. Grant Thornton, have identified opportunities for cost containment in the horticulture sector through enhancing operational excellence, specifically driving improvements to processes and operating models.

Our approach to operational excellence provides the structure required to determine the root cause of inefficiency, while remaining agile enough to suit our clients unique needs. We have extensive knowledge of the horticulture sector and were recently engaged by a leading mushroom producer to undertake a lean diagnostic review. The case study outlined overleaf highlights some of the ways in which we engaged with the client and the tangible benefits that were accrued from the engagement. Our standardised Define, Measure, Analyse, Improve and Control (DMAIC) approach to identifying and eliminating inefficiencies in the horticulture sector enhances the performance of business.

## Lean diagnostic review

During our seven day engagement we examine the impact that people, processes and systems have on the bottom line. Our lean diagnostic review provides clients with:

- a clearly defined and aligned organisation structure with a culture of ownership and accountability;
- the ability to leverage information systems to be in control and understand what is going on, thus enabling decisions to be made based on data, facts and in a timely fashion;
- improved controls and procedures across the business;
- the organisational capability to act quickly and efficiently when business opportunities present themselves;
- enhanced timeliness, availability and accuracy of financial information; and
- mitigating actions to prevent the risk of controls being circumvented.

| Key areas of focus | Sample activities |
|---|---|
| Introductory workshop | • project identification;<br>• defining the project scope;<br>• understand the specific outcome required; and<br>• an introduction to lean principles. |
| Understanding the current situation | • what is the problem or need?<br>• where is the gap in performance?<br>• what facts or data indicate there is a problem?<br>• who owns the process/process steps?<br>• what specific improvements in performance do we need to achieve? |
| As-is analysis of current situation | • why does the problem exist?<br>• what is the root cause of the problem?<br>• what conditions are preventing us from reaching our goal?<br>• why do they exist? |
| Improvement initiative development | • what counter measures can be proposed?<br>• what are the relative costs and benefits?<br>• what improvement initiatives can be introduced? |
| Implementation plan development | • what are the main improvement actions?<br>• what resources that will be required?<br>• who is responsible for implementation?<br>• what controls are in place? |
| Report and recommendations | • final project report generation; and<br>• presentation of report to management. |

## Case study - Irish Mushroom Producer

The client engaged Grant Thornton to conduct a **seven day 'operational excellence – lean diagnostic review**' of the current state of its mushroom picking process, to focus primarily on mushroom wastage and giveaway.
The scope of the project included the following areas:

- 'as-is' assessment via process mapping the current state of the mushroom production process defining the process flow from start to end;
- measure how wastage is managed currently;
- source and analyse available data on current state wastage levels;
- define incentives aimed at increasing pickers' accuracy in picking mushrooms;
- identify effective ways of measuring improvements in pickers' accuracy; and
- develop improvement initiatives and control measures for tracking same.

Grant Thornton applied best practice lean principles and methodology. An approach based on analysing the current value stream picking process end to end from initial compost delivery to final product customer collection was adopted.

**Key deliverables**
Resulting from this engagement:

- mapped business processes;
- root cause analysis conducted;
- potential savings identified;
- improvement initiatives identified and implemented; and
- structured road-map to realise identified savings provided.

**16%** increase in yield achieved during pilot project

# We are Grant Thornton

At Grant Thornton we work with over 200 Irish agri-food business across the entire value chain. Our dedicated agri-food team has a wealth of national and international experience in the agri-food sector providing bespoke professional services to companies of all sizes. If you require further information on any topics or would like to discuss other professional services matters, contact our agri-food team or visit our website **here**.

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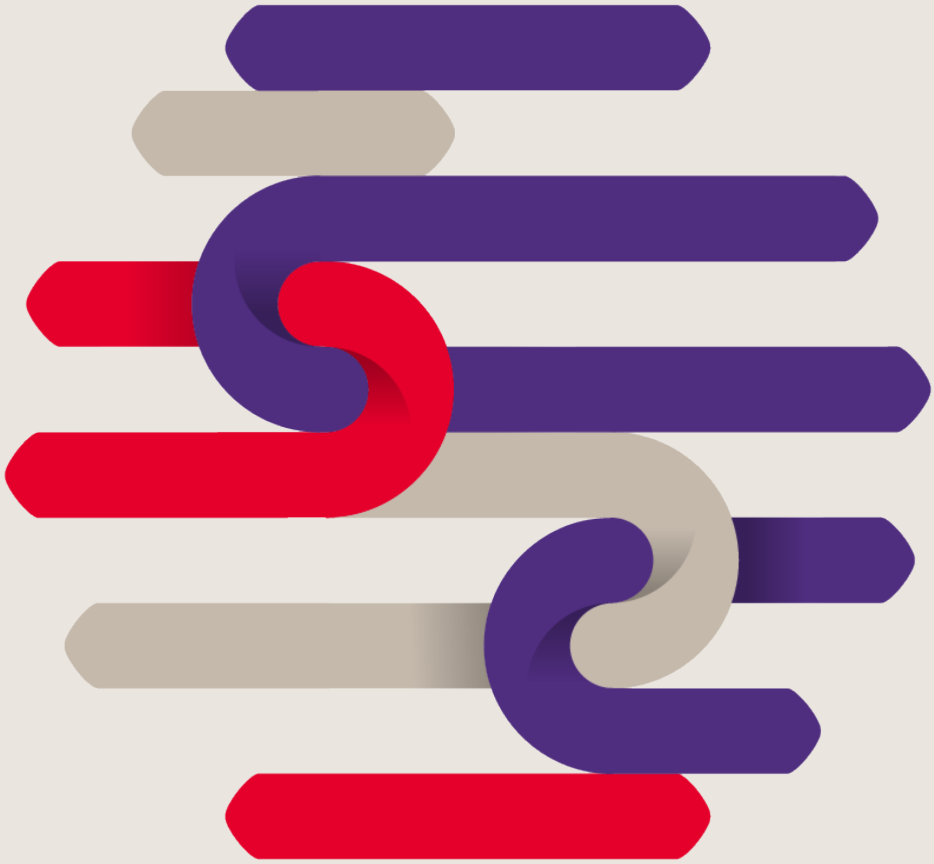

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