



Navigating the Tax Landscape to unlock cash in food & drink manufacturing

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Speakers

Here with you today...



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Content



VAT



R&D tax



Capital Allowances



Questions?

01 VAT

What is
food?



Are food supplements food?

1



2



3



4



5



Is a healthy flapjack a cake?

1



2



3



4



Poll 1: Question: Which flapjack is subject to VAT at 20%?

Option: A: 1/ B: 2 / C: 3 / D: 4 / E: None (Enter your answer on the next screen)

Poppadoms or crisps?

1



2



3



4



Poll 2: Question: Which product is subject to VAT at 20%?

Answers: A: 1 / B: 2 / C: 3 / D: 4 / E:

None (Enter your answer on the next screen)

**When does size
really matter?**



**When is bread
not bread?**



When is a drink not a drink?

1



2



3



4



02 R&D Tax

R&D in the Food & Beverage Industry

General overview

- Scheme to promote innovation and development in the UK – promote economic growth, keep UK competitive in global tech market, drive productivity
- Key focus on ‘science and technology’
- Forefront of the government agenda – crack down on fraudulent claims leading to more governance
- Supplement to grant funding



Poll 3: Question: Does your company make R&D Tax claims?
Answers: A: Yes / B: No / C: Sometimes not every year (Enter your answer on the next screen)

R&D in the Food & Beverage Industry



Raw materials

Disease prevention
Feed trials
Genetics and breeding
Growth/health improvements



Product development and value add

NPD - new products, flavours or coatings
Existing product development, eg salt, sugar reduction, shelf life, texture
New/improved packaging



Process development and manufacture

Improvements to the existing process eg capacity, throughout, efficiency etc
Sustainability goals - Waste reduction/improving yield
Water efficiency and odour control
Reducing emissions



Software integration

ERP system development
Interfacing with outdated hardware or attempting to update legacy functionality.
Performance enhancements to speed, resource efficiency or accuracy of performing processes

Governance and Risk

HMRC Interest:

- Unprecedented amount of scrutiny in R&D claims recently
- Targeted by industry, SIC code, or random compliance checks
- Interesting in boundaries of R&D, ensuring activities aren't commercially focused
- Introduction of more governance including Additional information form 'AIF'



Reducing the risk of enquiry

- Maintain an audit trail
- Ensure high quality project narratives within the submission
- Accompanying R&D report outlining robust methodology

Key Takeaways



Opportunity

Are you doing R&D?
Are you making an R&D claim?
Can this be optimised?
Interaction of grant funding



Robustness

Benefits of using a reputable advisor
Robust methodologies and high-quality deliverables
Forward planning and real time capture of information

03 Capital allowances

Overview

Capital allowances are the main form of tax relief for capital expenditure – similar to the accounting concept of depreciation

		<u>Without CAs (£m)</u>	<u>With CAs (£m)</u>	<u>Saving due to CAs (£m)</u>
Profit before tax		1.5	1.5	
Disallow depreciation		0.5	0.5	
Profits chargeable to tax		2	2	
Annual Investment Allowance (100%)	£1m		(1)	
Plant & machinery pool (18%)	£1m		(0.18)	
Special Rate pool (6%)	£1m		(0.06)	
Taxable Profit		2	0.76	
Tax Payable (@25% rate)		0.50	0.19	0.31

Capital allowances of around £155billion are claimed each year by companies in the UK, saving in the region of £39billion of tax payments in time- largest tax relief claimed by companies- HMRC corporation tax statistics 2024.

Some companies factor capital allowances into pricing and investment decisions, and financial models, particularly PFI and renewable energy companies

11 main fixed asset categories for tax

Category/ relief	Rate
Land Remediation Relief and Derelict Land Relief	150% FYA
Super-deduction	130% FYA
Annual Investment Allowance	100% FYA
First Year Allowances/ Enhanced capital allowances	100% FYA
Research & Development Allowances	100% FYA
Special Rate allowance	50% FYA, then 6% WDA

Category/ relief	Rate
General/ main pool – P&M	18% WDA
Special rate pool – P&M	6% WDA
Capitalised/ Deferred revenue expenditure	Depreciation rate
Structures and Buildings Allowances	3% SL
Non qualifying	0%

Full expensing

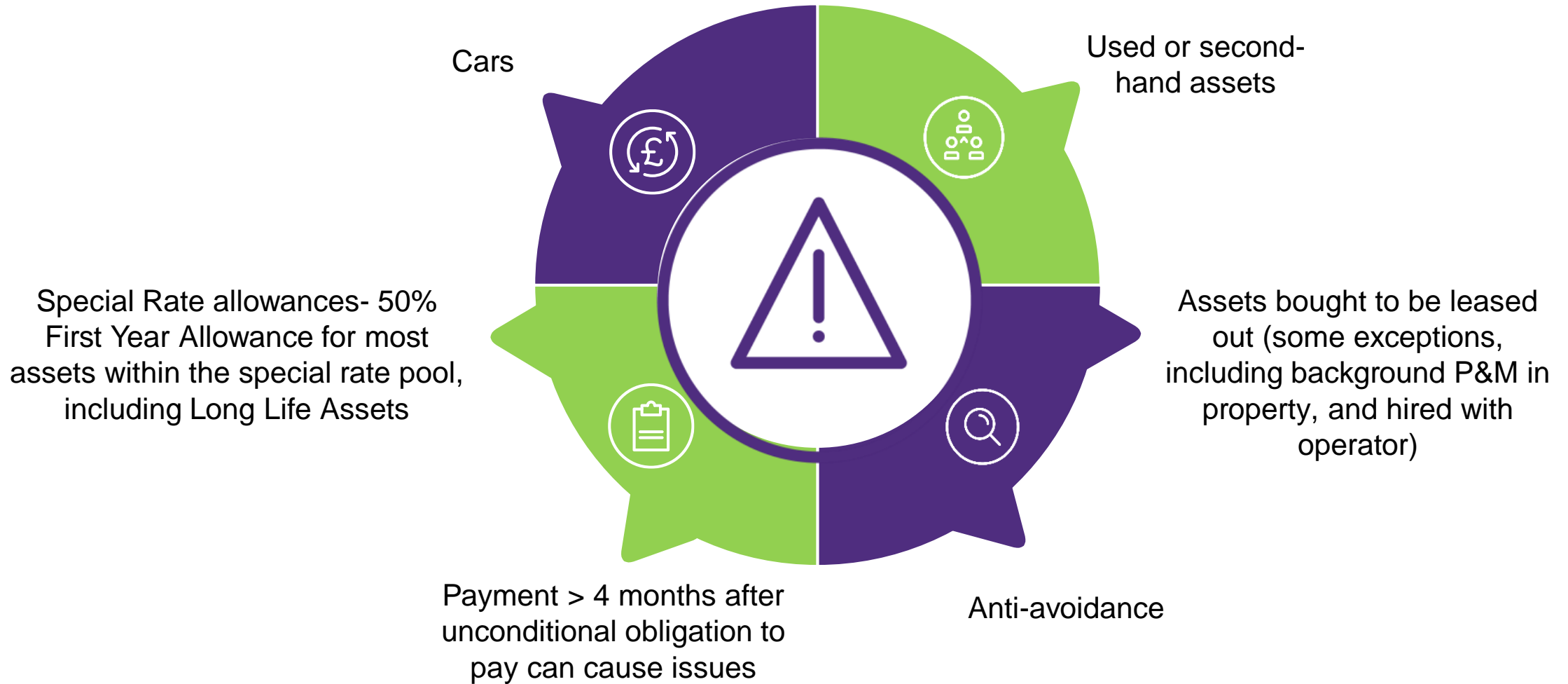
- 100% first year allowance for most assets within main pool
- Up to 25% tax saving (for accounting periods beginning on or after 1 April 2023)
- Capex incurred after 1 April 2023
- Only available to corporation taxpayers
- Expected to cost up to £11bn a year

	Main Pool (£M)- 19% rate	Super-deduction (£M) 19% rate	Full expensing (£M) 25% rate
Asset acquired	10	10	10
Tax deduction in Year 1	1.8	13	10
Tax saving in Year 1	0.34	2.47	2.5
Tax savings in future years	1.56	0	0
Total tax saving	1.90*	2.47	2.5

*Not factoring Time Value of Money

Full expensing

Other exclusions



Super-deductions

Rate is less than 130% for AP straddling 1 April 2023 i.e.

- YE 31 Dec 2023 = $(90/365 \times 30\%) + 100\% = 107.4\%$
- Tax relief will remain at approx. 25% for taxpayers, due to hybrid increase in tax rate

HMRC enquiries and nudge letters

Payments accelerated prior to 1 April 2023 may not necessarily qualify

Disposal via s198s- allocate proceeds between super-deduction, Special Rate allowance, main pool and special rate pool

Research and Development Allowances

- 100% First Year Allowance on assets used for carrying out R&D, or providing facilities for carrying out R&D
- If used equally by 3 projects, 1 of which qualifies for R&D tax relief; claim 33.3% of the cost as qualifying for RDAs
- Can't change treatment if use changes in later years
- 2-year time limit to claim
- Only for companies, carrying on a trade- not for landlords
- Limited legislation, case law and HMRC guidance



Historic review opportunities

- Entitlement to review
- What can be reviewed
- Which reliefs are underclaimed
- Trade specific assets



Case study



Food packaging company spent £16m on constructing and fitting out a new factory and warehouse facility.

Our software solution efficiently analysed the Cat A and Cat B fit out costs, as well as the equipment that was installed.

Key points:

- confirming when the contracts were signed
- identifying costs before and after 1 April 2023.
- identifying drainage costs that related to the company's trade.

We identified a total tax saving of around £4m, broken down as below:

- Super-deductions- 13%
- Full expensing- 6%
- Special rate allowances- 16%
- Main pool – 3%
- Special rate pool- 4%
- Structures and Buildings Allowances- 58%

Freeports and Investment Zones

Qualifying businesses operating in “tax sites” within these zones will benefit from generous tax reliefs including:

- 100% enhanced capital allowances for P&M.
- Enhanced SBAs- 10% straight line.



Recent Case Law

- JRO Griffiths – 2021- potato storage facility
- May- 2018- grain silo
- Gunfleet Sands- 2023- predevelopment costs for windfarm



Recently announced consultations

1. Greater clarity on what qualifies for CA, targeting specific areas of uncertainty
2. Full expensing for leased assets
3. Advanced clearance on uncertain CA treatments
4. Treatment of predevelopment costs
5. Land remediation relief



Poll 4: Question – Which of these consultations would impact your business the most?
Answers: 1 / 2 / 3 / 4 / 5 (Enter your answer on the next screen)

Questions?



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