



Irish Co-operative Organisation Society Ltd
Pre-Budget Submission 2016

September 2015

Executive Summary

ICOS serves and promotes commercial co-operative businesses and enterprise, across multiple sections of the rural economy. In total, ICOS represents 130 co-operatives with a combined turnover of €14 billion and a membership of 150,000 people, with ICOS affiliated co-ops employing 12,000 people in Ireland and a further 24,000 abroad.

The agri food sector has played a key role in Ireland's economic recovery. The agri food sector accounted for 8.4% of total employment in 2014, sustaining and supporting 163,000 jobs across rural Ireland. The value of exports from the sector reached record levels at €10.5 billion in 2014.

Moreover, the agri food sector uniquely supports the rural economy in a manner different to other manufacturing and Foreign Direct Investment. This is because the agri food sector uses a range of direct and indirect inputs sourced from local service providers, which creates a multiplier effect whereby every town and parish in Ireland benefits.

However, there remains an underlying unfairness in the income tax system against self-employed workers including farmers, with PAYE workers entering the income tax net at a significantly higher level than the self-employed. ICOS fully supports budgetary changes designed to improve equity in the income tax system by removing measures that discriminate against the self-employed.

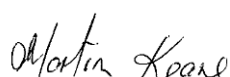
As Ireland's largest indigenous industry, the agri food sector with appropriate support from Government can continue to deliver new jobs and investment across rural Ireland, in line with the vision outlined in Food Wise 2025.

The agri food sector is entering into a new era with the abolition of milk quotas in April 2015. While the dairy industry is confident of achieving increased levels of growth, including an increase in milk production of 50% by 2020. The reality is that the milk needed to fulfil our Food Harvest 2020 and Food Wise 2025 targets, will have to be produced against a backdrop of enormous market volatility.

In addition, the agri food sector is also facing enormous sustainability challenges in the areas of climate change, water quality and biodiversity.

We have set out in this pre-budget submission a range of budgetary supports and agri-taxation measures, which are mostly cost neutral with broader efficiency benefits. We believe that these measures, if enacted can help our farmer owned and controlled co-operatives deal with a range of challenges from market volatility to environmental sustainability.

Last year's budget included several positive changes for the agri food sector following a comprehensive review of agri-taxation measures. It is essential that the Government builds on these measures in Budget 2016, so as to support family farm incomes, industry competitiveness and the sustainable intensification of the agri food sector.



Martin Keane
President

ICOS Pre-Budget Submission 2016

1. The establishment of an income deferral scheme

The income loss for Irish farmers arising from the current crisis in global dairy markets could be at least €600 million. This figure needs to be combined with a super levy exposure of €69 million from the 2014/2015 season. In addition to these costs, farmers are facing significant overhead costs from their business expansion plans, including an associated tax bill this year, as many dairy farmers used cash flow rather than borrowings to fund expansion plans. Figure 1 highlights the volatility in milk prices between the years 2001 to 2015, with the EU's milk market observatory noting a 33% drop in Irish milk price since the beginning of 2014. As a result, margins have reduced on Irish dairy farms by 90-100% due to the crisis.

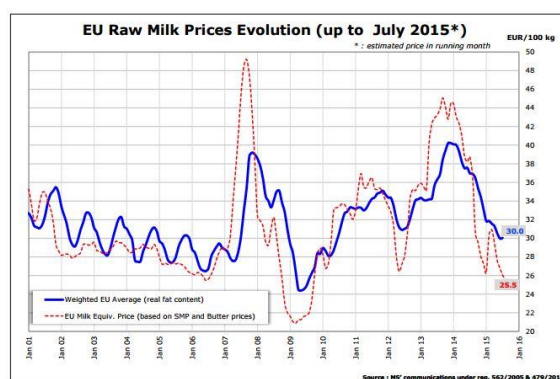


Figure 1: Milk Price Volatility 2001 to 2015

As a risk management tool to address income volatility in the dairy sector, ICOS recommends the establishment of an income deferral scheme managed by co-operatives and based on the Australian Farm Management Deposits Scheme. This is a system whereby farmers can move their before tax income from years they need it least, to years when it is most needed. For example, during periods of high prices, dairy farmers would be permitted to divert a portion of their gross milk receipts into a recognised fund. They can then draw down this income during periods of low prices. On withdrawal, the deferred income would be liable for income tax.

The income deferral scheme as proposed by ICOS would complement the income averaging system currently in place, by providing farmers with an additional risk management tool to deal with uneven income periods and cash flow difficulties. This proposal is justified, as the agricultural sector unlike any other sector must on an annual basis, deal with a wide range of factors outside the control of primary producers from extremes in weather to fluctuations in global markets.

ICOS also recommends that co-operatives be permitted to manage the fund as a recognised provider. This in turn will have working capital and capital expenditure advantages for the entire dairy sector.

ICOS Recommendation: ICOS recommends the establishment of an income deferral scheme managed by co-operatives.

2. Recognition for farmers who invest in their co-op

ICOS is recommending that mandatory investments by farmers in their co-op should be treated as an allowable expense. These funds should be subject to the appropriate taxation on redemption or maturity.

With the abolition of milk quotas, the vast majority of Irish dairy farmers have signed a milk supply agreement with their co-op. In addition, co-ops have put in place share buy in arrangements with a small number of farmers who don't have a shareholding in their co-op.

ICOS firmly believes that the co-op is an extension of a farmers business. Investment by a farmer in their co-op is in effect an investment in their own business. Previously, Revenue recognised milk quota purchase as an allowable expense. As such, ICOS recommends that investments by farmers in their co-op should be treated in a similar way.

ICOS Recommendation: ICOS recommends that mandatory investments by farmers in their co-op should be treated as an allowable expense.

3. Tax relief to support best practice in environmental sustainability

ICOS recommends the introduction of tax relief similar to existing research and development (R&D) tax credit guidelines, with the specific aim of supporting best practice in environmental sustainability. Under existing R&D guidelines, a 25% tax credit is available for qualifying expenditure for companies engaged in in-house R&D. This tax credit can be set against a company's corporation tax liability. The principle of incentivising a "key employee" also contained in the R&D guidelines should also be translated to the proposed measure dealing with environmental sustainability.

The purpose of such a measure is to encourage co-ops and other appropriate businesses to invest in the knowledge needed to drive sustainability at farm level. This proposal would fully support the wider objectives of Government to promote Irish food production as the most sustainable in the world.

ICOS is confident that the agri food sector can deliver the extremely ambitious vision of Food Wise 2025 including an increase in the value of agri food exports by 85% to €19 billion by 2025. That said, ICOS also recognises the significant sustainability challenges facing the sector in the medium to long term in the areas of biodiversity, water quality and climate change. In particular, a future expenditure risk may be associated with climate change and failure to meet EU obligations to reduce greenhouse gas emissions. To address these significant challenges, ICOS strongly recommends the adoption of innovative and practical measures including through taxation in order to incentivise the roll out of environmentally sustainability best practice.

ICOS Recommendation: ICOS recommends the introduction of tax relief similar to existing research and development (R&D) tax credit guidelines, with the specific aim of supporting best practice in environmental sustainability.

4. Land Mobility and Farm Restructuring

The low level of land mobility in Ireland is one of the main structural challenges facing the farming sector and is a significant obstacle to expansion. Last year's budget included several positive changes for the farming sector. These changes were introduced following a comprehensive review of agri taxation measures, which ICOS fully endorsed. Of note, budget 2015 introduced a range of measures to encourage the long term leasing of land including a new income tax threshold of €40,000 for lease periods of 15 years or more. ICOS recommends that the agri taxation measures related to the long term leasing of land should be kept under constant review and updated appropriately to improve their overall effectiveness and take up by farmers.

In addition, more innovative solutions will be required so as to help farmers to increase scale in a cost effective manner. Partnerships, share farming and contract rearing of heifers are possible options due to their potential to promote land mobility and succession planning. ICOS also recommends that agri taxation measures related to these options should be carefully examined and kept under constant review in order to encourage farmers to participate in collaborative farming.

ICOS Recommendation: ICOS recommends that the agri taxation measures related to the long term leasing of land and collaborative farming options be kept under constant review and updated appropriately to improve their overall effectiveness.

5. System of collection of tax in relation to non-executive directors/committee members

The co-op is a member's society in which the member owns, finances and derives benefit from the co-op through using its goods and services. Each of the members own and jointly run the society and elect on the basis of one man one vote, a single or multi-tiered control and representative structure to manage the co-operative business. The vast majority of directors in ICOS affiliated co-operatives are full time farmers in the case of agribusiness co-operatives or community activists in the case of community type co-operatives.

The current system for collection of tax in relation to payments of per diems and travel expenses deemed as income in the hands of non-executive farmer directors of co-operatives is via the payroll system. ICOS would propose a new separate system to the current P35 be implemented. A system that avoids the potential attachment of implicit employment rights to such farmer directors and that permits the co-operative to make a return once a year, and make payment electronically via the ROS system.

ICOS's concern in relation to the payroll system is classifying these non-executive directors/members as employees gives rise to potential employment law issues. In addition the non-executive directors and committee members in co-operative businesses change more frequently than employees/directors of company's and as a result it would be more administratively burdensome on the payroll department of the organisations.

ICOS Recommendation: ICOS recommends that a new system is established for the collection of the taxes on non-executive/committee member expenses.

6. Transfer of Audit Exemption to small co-operatives

Company law states that companies must lay full financial statements before an AGM. Depending on the type and size of the company, the company provided certain conditions are met may avail of an audit exemption. As a result of the exemption, smaller companies are not financially burdened with the cost of having an audit.

Many smaller co-operatives including group water schemes, community development co-operatives and not for profit rural based co-operatives engage in important work, delivering services and developmental activities to rural dwellers not being otherwise provided. The audit fees they incur would account for a large percentage of their expenditure. Moreover, audit fees are increasing due to increased regulation placed on auditors. The current average audit fee of €1,500 to €2,000, is a disincentive for many groups to establish themselves as a legal co-operative as their income in many cases just about covers these costs.

ICOS Recommendation: ICOS recommends that the audit exemption be available to small Industrial and Provident Societies with similar conditions to that currently for a private company.

7. Implementation of incentives towards clean, green electricity and heat production

The Department of Communications, Energy and Natural resources underwent an extensive consultation for the development of a new energy policy for Ireland. This was an excellent consultation, which balanced the views of a wide variety of stakeholders.

However, there were many initiatives which have been mooted within this consultation process including a Renewable Electricity Support Scheme and a Renewable Heat Incentive. These are highly commendable proposals but due to the drawn out nature of the consultation process, developments in the sectors have ceased in anticipation that these proposals will be in place in the near future.

Any interested individuals or communities who are looking towards investing in a piece of renewable electricity or renewable heat technology are, understandably, unwilling to move until any such incentive will be announced.

The renewable electricity and renewable heat sectors in Ireland have a wide ripple of effects on the Irish economy given the amount of people involved in each sector. Biomass alone generates increased activity for crop growers, planters, harvesters and processors. Also to be considered in the biomass sector are the manufacturers, suppliers, installers and maintenance of biomass technology. These businesses are currently working in limbo due to a lack of speed in confirming the detail of the incentives to be announced. We would further maintain that when the announcement is made, that similarly to the scheme in the UK, that the incentive be paid retrospectively to those who will invest from the time between the announcements are made to the opening of the scheme.

ICOS Recommendation: ICOS recommends the swift implementation of incentives for the installation of renewable heat and renewable electricity technologies.

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