



Notes on Accountancy and Tax Treatment of Shares, Loans, and Charges

These notes are intended as a guide to the accounting and tax treatment of shares, loans and service charges paid to the Society. For further detail you should refer to the **Storage and Marketing Agreement** and the **Store Guide**, which is reviewed annually, or contact the Accountant.

1 £25 SHARE CAPITAL

Trinity Grain Ltd operates as a mutual society, each member owning one £25 share. Shares may not be withdrawn, but may be transferable when storage is assigned or re-allocated.

2 JOINING FEE

This is an administration charge and should be treated as revenue for tax purposes.

3 QUALIFICATION LOAN £x per tonne (sometimes referred to as **Tonnage loan**)

- a The Qualification loan is at an amount fixed at the time of joining or of taking additional storage.
- b It is a capital payment not allowable for tax. In general investment in Trinity Grain Ltd does not qualify for "roll-over" relief. No interest is payable on this loan. It is repayable. (see para 3c)
- c In normal circumstances the loan is repayable when the balance required to finance the member's storage rights has been paid off. When the Qualification loan is repaid, Service Charges of the same amount are charged simultaneously, in order to generate a fund from which the loan can be repaid, thus the member provides the funds to repay his own loan and so the loan which is not tax allowable is effectively converted into a revenue or tax allowable charge.
- d The member may increase the qualification loan at any time. Repayments of the additional loan will be offset against future Service charges as in para 3c. Because this enables us to repay the bank borrowing sooner, thus reducing the interest cost, it reduces the total amount payable by the member.

4 SERVICE, STORE and LEASING CHARGES

These are all revenue and tax-allowable. Invoices are rendered in November (Store & leasing charges) and March (Service charges) of each year and are usually recovered against advances due on crops entered into the pooled marketing arrangements (para 5.1).

4.1 Service Charges

- a The Service charge is an amortization payment relating to depreciation of the plant and interest on the bank borrowing required to finance the member's right to enter commodities in the store. The charge is levied until the member's share of depreciation and interest cost has been cleared; income from this charge is used to repay the bank borrowing. The charge will cease when the bank borrowing relating to the member's agreement and the member's qualification loan have been repaid (see para 3c).

- b The Service charge is levied on the committed tonnage for each agreement. It is an annual charge, normally invoiced in March.
- c It is treated as a tax allowable revenue charge.
- d The amount of the Service charge is set at the commencement of the agreement, but in certain circumstances it may be appropriate to alter the amount (eg if interest rates rise). Service charges are normally payable for a period of 8 to 10 years, depending on interest rates and amounts paid.
- e As plant needs replacement similar, but probably lesser, charges may be necessary depending on the Board's policy on depreciation.

4.2 Store Charges

These include **Standing, Handling and Haulage, Excess Moisture charges**, which cover the cost of running the store ie staff costs, haulage into store, fuel, electricity, repairs and maintenance, and administration costs etc. This charge will normally increase each year due to inflation.

- a **Standing Charge** - covers the fixed store costs and is levied on the net committed tonnage, plus any leased tonnage. This charge is payable whether or not storage is used, but the member may be relieved of this charge if his unused storage is leased to another member.
- b **Handling and Haulage** - covers variable costs including haulage into store and is levied on gross intake tonnage.
- c **Excess moisture Charge** - levied on gross intake tonnage and based on moisture content of the individual load.

The level of store charges is based on budgeted costs. When actual costs are known any surplus or shortfall of income from these charges will be paid or carried forward by agreement of the members upon the recommendations of the Board.

4.3 Leasing Charges/Credits

- a **Lease Charge** - If a member exceeds his committed storage entitlement (per Storage Agreement) he will need to lease the additional space, by agreement with the store manager.
- b **Lease Credit** - If the store manager is able to lease unused space to other members, then a lease credit may be paid to members releasing storage.

5 METHODS BY WHICH A MEMBER MAY DISPOSE OF HIS STORAGE RIGHTS

Subject to the Society Rules and any agreements in force, a member may dispose of some or all of his right to store grain. There are two ways of achieving this which have quite different accounting and tax implications.

All new members must be approved for membership by the Board and all agreements must be agreed to and drawn up by the Society. Any member wishing to either assign or surrender all or part of his storage rights should notify the Society Secretary in writing.

5.1 Method 1: Assignments

This is the original scheme and requires the member to find a farmer willing to take over his storage commitment and to agree a price which would include recompense for items a, b & c below. The deal between the two farmers represents a capital transaction in both cases, giving rise to capital gains tax for the seller and a capital payment by the purchaser against which no allowances could be set.

Payment is made by the assignee direct to the assignor. The price agreed between assignor and assignee should take account of the following:

- a **£25 Share Capital.** This would be transferred. If storage rights were to be assigned to an existing member the share would be forfeited.
- b **Qualification Loan.** The new member would take this loan over at par value and would in due course be repaid as described in 3c.
- c **The Difference:** the total amount agreed to be paid by the new member less any amount for share capital (a) and qualification loan (b). This amount compensates the assignor for Service charges paid, and may be more or less than the total he has paid, depending on the agreed assignment price. In agreeing the price the new member needs to take into account future liability to Service charges - see (d) below.
- d **Service Charges payable to Trinity Grain Ltd.** The new member would have to pay any future service charge which the old member would have been liable to pay. However, this is taxable as a revenue expense unlike a, b & c above.

6.2 Method 2: Re-allocation of Storage Space and adjustment of Service Charges

The Assignment method outlined above is not always suitable and therefore the following method is also available requiring a different type of agreement. If the Society knows of existing or potential members requiring storage in Trinity Grain Ltd then arrangements can be made to re-allocate the old member's space and adjust service charges.

As with the Assignment method a surrender price has to be agreed, but the new member makes payment to Trinity Grain Ltd and the old member is then paid by Trinity Grain Ltd.

The following transactions would then take place:

The Old Member

- a Surrenders his storage rights
- b The old member's **share capital** is either forfeited or transferred
- c Any **Qualification loan** balance is repaid to the old member by the society. (Capital for tax purposes)
- d The balance of the surrender value, after deduction of any qualification loan balance (para 6.2c), less a transfer fee and less any balance outstanding in respect of future Service charges,
is paid to the old member by the society as a **refund of Service charges**. (Revenue for tax purposes)

The New Member

- a Commences a new storage agreement and agrees to pay the following:
- b **£25 Share Capital** either to the society or to the old member (Capital)
- c **Joining fee** to the society (Revenue)
- d **Qualification loan** to the society at an amount agreed at the commencement of his storage agreement. (Capital)
- e **Annual Service Charges** to the society, based on the agreed price less qualification loan. (Revenue)
- f **Annual Store Charges** to the society. (Revenue)

Payments by the new member joining by this method would be similar to those for members acquiring new storage (see notes 1-4).

(amended 03/10/2018)