

Woldgrain Storage Limited

Raising funds to cover additional storage capacity

The following notes are for general illustration and guidance only. No action should be taken, or refrained from, based upon these notes without specific professional advice.

The Society needs to raise funds to cover the cost of increased storage capacity. The cost of additional capacity is estimated at £100 per tonne **plus interest charges**.

The Society intends to raise the whole of the sum required by way of borrowing, with £30 per tonne coming from members who wish to take advantage of the increased facility and £70 per tonne from the bank.

The £100 per tonne so raised will be invested in the relevant project.

The Society will then need to generate sufficient surplus funds to enable it to repay the borrowings of £100 per tonne, and has set a target of 10 years for doing so. The service charge to members who have benefited from the relevant project will therefore include £10 per tonne per year until the borrowings have been repaid.

The Society's plan is that for the first seven years the funding raised via the service charge will be used to repay the bank borrowing. Once this has been done, the funding raised in the remaining three years will be used to repay the member borrowing.

The cashflow implications for a member (ignoring interest charges) are therefore as follows:

Year		Member		Society	
		Outflow	Inflow	Outflow	Inflow
1	Bank loan				70
1	Member loan	30			30
1	Service charge	10			10
1	Project expenditure			100	
1	Repay bank borrowing			10	
2 – 7	Service charges (6 x £10)	60			60
2 – 7	Repay bank borrowing (6 x £10)			60	
8 – 10	Service charges (3 x £10)	30			30
8 – 10	Member loan repayments (3 x £10)		30	30	
		—	—	—	—
		£130	£30	£200	£200
		—	—	—	—

Service charges will normally be tax deductible in the accounts of a trading member.

Loans are not tax deductible when made, but similarly not taxable when repaid.

The capital cost to a member of his storage rights is £nil. As a result, any disposal proceeds realised in respect of the transfer of storage rights to a third party will be liable to capital gains tax in full with no base cost.