Director of Finance Report to 2017 AGM

**Corporation Tax Liability explanation**

In March 1994 the Institute invested £213,000 into an International Investment Bond. At this time companies were able to benefit from the 5% tax deferral, which is still available to individual investors. HMRC changed these rules in 2008 and from this date all withdrawals became liable to corporation tax.

In 2016 the investment had a value of £503,105.22 and withdrawals of £87,500, however, due to the timings of these withdrawals this equates to £55,214.78 of the original £213,000 investment, with the remaining amount (£32,285.22) being gain.

Therefore the base price that used today is calculated by deducting the withdrawals of the original amount invested from the total amount invested, £213,000 - £55,214.78 =**£157,785.22.**

The implementation of FRS 102 on the 1 January 2016 changed the tax position of company held investments. It means that Investment Bonds, International Investment Bonds and Unit Trusts invested in deposit based funds will have to be revalued on an annual basis with corporation tax paid on any growth.

The corporation tax liability calculation based on the value of £503,150.22 - £157,785.22 = **£345,365 Gain.**

 The Corporation Tax on encashment is £345,365 x 20% = £69,073.

A sum of £70k has been set aside to cover this liability.

**New investment**

The implications of the new tax rules for investments and the possibility of the Institute changing their status to a Charity have had an impact on the objectives for the investment. The new rules mean that the International Investment Bond will need to be revalued from commencement and corporation tax will be payable on the gain. This will need to be done on an annual basis going forward.

Continuing to hold an International Investment Bond if/when we decide to become a Charity would contravene Charity Commission rules because an International Investment Bond is not a recognised investment. A Charity holding an International Investment Bond will also suffer penalties by losing tax relief on the income it receives. An International Investment Bond would not be a tax efficient vehicle for a charity.

The Institute would like to hold an investment that grows to ensure that our investment keeps pace with inflation and does not need to be revalued on an annual basis. The investment also needs to be acceptable as a charity investment.

Should the Institute decided to continue as a Company, rather than alter our status to a Charity; **encashment of the International Investment Bond and reinvestment into a Unit** **Trust is still appropriate.**

**New investment**

The original investment was encashed in June 2016, and £400k invested as recommended by St James Place. £70k was reserved for payment of the Corporation Tax liability, and St James Place have admitted liability for the costs of charges and any resulting HMRC penalties.

(The value of the investment is £452231.41 as at April 2017.)

**VAT Liability**

The Institute may be liable to pay VAT if its annual turnover is in excess of £84k. However, there are exemptions for organisations which provide education and/or training. Our accountants, Girlings, and currently in discussion with HMRC on our behalf, using an outline of our work (written by Valerie Holt) making the case that much of our income is derived from education and training. We await the verdict of HMRC.

**2016 Accounts**

The Institute receives less than a quarter of our income through subscriptions, the remainder being training (30%) and conferences and workshops (36%). In 2016 income was increased by the new EA Fisheries course, together with 2 successful conferences (Farming and Telemetry). Initiating and organising these events takes a considerable amount of time and effort and would not occur without the efforts Paul Coulson and Iain Turner, together with the Training Committee led by Iain Wellby.

Expenditure

The bottom line in 2016 is a deficit of £28k; this is in line with our agreed strategy of financing development from our long term investment. (Indications from 2017, thanks to the incredibly successful Eel conference, is that we will be breaking even.)

**Change of bank account**

We are currently in the process of changing our bank account from TSB to Lloyds. This is necessary because TSB has stopped offering the Direct Debit facility. Over half our members pay subscriptions by Direct Debit and so Executive agreed that the risk in potentially asking members to change payment method was too great.

**CEnv fees increase.**

The Society for the Environment has increased the CEnv fees by £1 with effect from January 2018. This will happen on an annual basis. The Council of the Institute has agreed to absorb this increase and leave subscriptions unchanged.

However, it is likely that we will need to increase subscriptions within the next two years.

In conclusion, we are slowly recovering a better financial position following several years of a very high deficit and a critical look at expenditure, making several changes to save money as well as increasing our income through conferences and courses