CORDINER
WEALTH

7 things business owners should do with surplus cash in their business

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One of the most common things business owners ask me is what they should do with surplus cash within their business.

Ideally, you should have a strong cashflow plan and know what your business's run rate is. Many business owners like to keep 6 – 12 months of funds in case of an emergency, held safely in a business savings account. This can help keep the lights on if something unexpected happens.

Over and above this emergency fund, many business owners find they still have surplus cash within the business that they'd prefer not to pay personal tax on.

If you have surplus cash in your business, you could consider one of these seven strategies.

If you'd like an experienced financial planner to give you personalised advice for your business, get in touch with us at Cordiner Wealth.

Email us at **hello@cordinerwealth.co.uk** or call **0113 262 1242**.

Alternatively, use our online **book a call** facility to schedule an initial consultation.

1. Do nothing

Doing nothing is probably the most common option that business owners choose in the small and medium-sized enterprise (SME) market.

Many successful businesses have a sizable amount of cash in a current or deposit account, paying minimal interest rates. This could be due to an insufficient business plan, concern over future expected cash flows, or just the current low-interest environment.

No matter the reason, many businesses now have savings that are earning next to no interest.

If this is your business, it might be worth considering spreading risk, rather than holding large sums of cash with one bank. Currently, the Financial Services Compensation Scheme (FSCS) ensures that you'd receive £85,000 if a financial institution becomes unable to pay out, such as if they went into administration. However, that means any money you hold above this amount is potentially at risk.

You could reduce this risk by holding your money with multiple institutions.

Pros

- No effort required.
- Ensures there's a lump sum of cash in the company account, especially for emergencies.

Cons

- No real return on assets.
- No real FSCS protection, potentially putting money at risk.

2. Search for high-interest accounts

Some business owners or finance directors decide that they should hunt around for the best possible interest rate.

Currently, as of July 2021, you could probably put around £1 million in 12 separate one-year fixed-term rate accounts offering an average of approximately 0.9% – that's around £9,000 gross. This is obviously a higher return than doing nothing.

The downside is that you have to deal with 12 different banking institutions. This means doing all your "Know Your Customer" (KYC) and anti-money laundering, as well as all the account opening and switching when that first year ends.

There are a couple of services worth looking into to minimise the hassle of all this activity. One is **Flagstone IM** and the other is **Octopus Cash**, both allowing you to keep the FSCS 100% protection while partially automating the process.

These services can minimise the work that you have to do. However, they do both take a small fee, and the amounts that can be put with them is dependent on the number of banks they have on their own platform.

Pros

- Higher interest rate, giving you some growth.
- More FSCS protection, reducing risk.

Cons

- More effort unless you use a cash management service.
- The interest rate might not see your cash keep up with inflation.

3. Take it out and suffer the tax

If you wanted to just live for the now, you could take the cash straight out of your business and suffer the tax cost. Of course, this strategy depends on your individual circumstances and your long-term plan.

If you have generated enough cash in the business and you're currently sitting on a substantial amount of money with no real purpose or direction, this could be a good option.

For example, if you have a lifestyle business and there are things that you wish to spend your money on that benefit your lifestyle, you could consider taking the income and suffering the tax consequences.

But, if you're planning to sell your business and you expect to benefit from Business Asset Disposal Relief (formerly Entrepreneur's Relief), this option might not be the most tax-efficient.

Fortunately, there are other ways to minimise tax once you've taken your cash out. For example, you could invest the cash into personal pension contributions, or consider an Enterprise Investment Scheme (EIS) or Venture Capital Trusts (VCTs).

Pros

- A lump sum of money in your personal bank account.
- Able to do achieve what you want with the funds.

Cons

- Likely to be higher income tax to pay.
- More decisions on what to spend the money on.

4. Invest it

Investing through your company can be successful, provided you get it right.

If you have enough cash in the business and you're comfortable with the expected cashflow, it makes sense in some circumstances to invest the cash. In most cases, the profits from the investments will be taxed at Corporation Tax rates – 19% in 2021/22 – which is fairly competitive, particularly for income-generating assets.

Two issues with this could be liquidity and risk. If you're looking for access to this capital in the short term, this is unlikely to be a strong option. Also, deciding what to invest in and what risk to take is also a decision that many struggle with. This is where a financial planner can add value, providing advice on the right investments for you.

Realistically, the risk and investment decisions should reflect the business plan. The general assumption for traditional investments is that the longer the time horizon, the more risk you can take on – of course, that depends on what "longer" means to you, but likely a minimum of five years.

You should also look at the structure of holding the investments and potential implications. You should speak to your accountant as this is quite a complex area, so make sure you understand the tax and investment risks before deciding on this approach.

Pros

- Potential investment growth or income to boost your sum.
- Favourable tax rate within the company for income-generating assets.

Cons

- Capital at risk and decisions over what to invest in.
- Liquidity can be an issue, as capital may be inaccessible.

5. Company-to-company loan

One slightly more innovative option you could choose is to lend your money to another limited company, charging interest on it. Other businesses might prefer to borrow from you, as the interest rate you'll charge will likely be lower than a bank or building society.

To do this, you need to create an iron-clad loan agreement that includes all terms and conditions. This protects both their business and your money.

However, aside from the money you can make in interest, there are few other tax advantages of a company-to-company loan.

These loans are not considered a business expense, so they'll do nothing to reduce a Corporation Tax liability. In fact, even the interest you receive will count as income, meaning you'll have to pay Income Tax on it.

And obviously, if the company you make your loan to goes out of business, you could end up losing your entire cash sum.

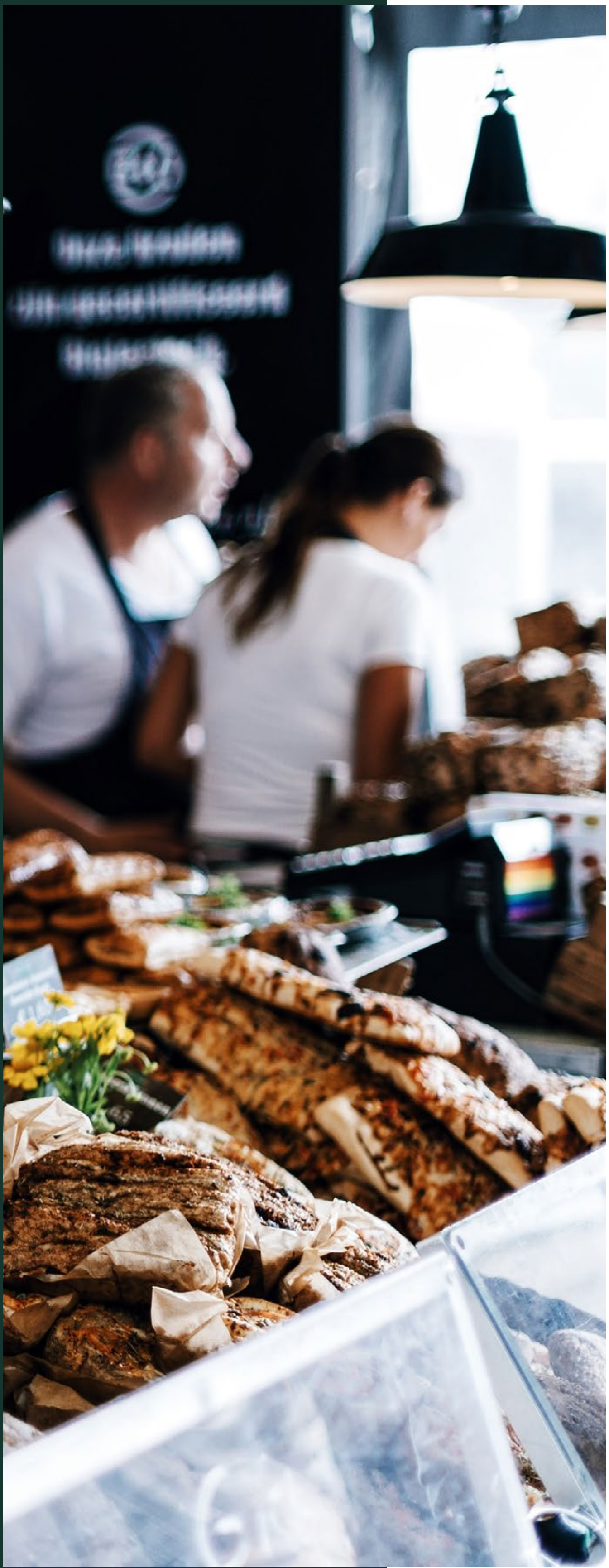
Calculate whether the interest you could receive outweighs both the effort of loaning your money, the risk of losing your money, and any Income Tax you'll pay.

Pros

- Produce income from interest accrued.
- Invest in a company you believe in.

Cons

- Doesn't actively reduce your tax liabilities.
- Potentially high risk, depending on who you loan to.



6. Pension contributions

One of the easiest ways to get money from a business environment into a personal environment is via employer pension contributions. The big issue with this is that you technically don't have access to these funds until you're over 55 (rising to 57 in 2028).

Most business owners who are both making a profit and have surplus cash should be making lump sum and/or monthly pension contributions. But there are a few things to beware of:

- The Lifetime Allowance (LTA), the maximum threshold for receiving tax relief.
- Tapered Annual Allowance, where your LTA is reduced if you have a particularly high income.
- Carry forward calculations, potentially allowing you to increase your Annual Allowance in a tax year.

These terms magnify how complex pensions are as they have continually been tinkered with over the years.

Pros

- Good tax benefits, such as Corporation Tax relief.
- Control over your investment choices.

Cons

- No access to the capital or income until age 55.
- Complicated tax rules.

The pension Lifetime Allowance and the Tapered Annual Allowance

You have a pension Lifetime Allowance (LTA) of £1,073,100. After this threshold, you won't receive tax relief on your contributions.

If you have a particularly high income, you may be subject to the Tapered Annual Allowance. If your adjusted income is over £240,000, your allowance is reduced by £1 for every £2 you exceed the threshold. That means if you make £312,000 or more, your allowance could be as little as £4,000.

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7. Property

Property is a popular way for business owners to store their surplus cash, allowing you to make a purchase on a solid, tangible asset that could increase in value over time.

Property prices have risen dramatically over the past 12 months, hitting an all-time high in 2021. So, if you'd taken the plunge with a surplus last year, you'd have already made a tidy profit.

Another issue is that, while you might mitigate Income Tax, a property purchase is unlikely to be entirely tax-free. Firstly, you'll have to pay Stamp Duty when you make your purchase, the total of which will depend on the price of the property.

Then, if you decide to rent the property out, any payments you receive will count as income, meaning you'll have to pay Income Tax on them.

Property is an illiquid investment as, when you come to cash in on any equity gained on the property, there's no guarantee you'll be able to find a buyer. And, even if you do, you still may have to pay Capital Gains Tax (CGT) if its value has increased by more than your personal CGT allowance – currently £12,300.

If your only goal is to directly avoid Income Tax, you'll need to calculate whether the costs of the property make it worthwhile.

Stamp Duty rates on BTL properties

Portion of property price	Stamp Duty rate
£0 – £250,000	3%
£250,001 – £925,000	8%
£925,001 – £1.5 million	13%
£1.5 million and above	15%

Pros

- A good asset for storing wealth.
- The value could increase over time.

Cons

- Illiquid and could be difficult to sell.
- Exposes you to other taxes, including Stamp Duty and CGT.

Speak to us at Cordiner Wealth

If you'd like to find out what the best options are for surplus cash in your business, please contact us at Cordiner Wealth.

We're experts in helping business owners like you to make the most of your money.

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