Bank of Ireland
Investment Markets

Business investment: Looking at all the options

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Comments by Bernard Walsh, Head of Pensions & Investments, BOI Investment Markets

A growth cycle brings its own challenges, not least of which is what to do with spare cash. Bank of Ireland's Bernard Walsh talks about some of the options.

With the ESRI revising its growth forecast for 2018 upwards, to just under 9 per cent, citing faster-than-expected growth, there's no doubting the boom is back.

As we know only too well in Ireland, these things come in cycles. That's why now, when things are good, is the perfect time to make sure your corporate cash is being put to the best possible use for your business.

"We are starting to see more interest in what businesses can do with their spare cash," says Bernard Walsh, head of pensions and investments at Bank of Ireland.

"Just as I sit down with private individuals and work out what's coming in and going out, what they have and what they own, what they need for short-term day-to-day stuff and what they need in the mid-term, like changing their car, with companies I do the very same thing," he says.

"It's a really good exercise that forces them to work out whether they're just like hamsters spinning on a wheel or are planning for what comes next."

Where there is excess cash, one option is for directors to give themselves more salary. It's not always the best option though. "With that, you'll be hit with tax, USC and PRSI, which in effect means you'll be giving up half of the cash," Walsh says.

Another alternative is to load up their pension. "This is, of course, a very tax-efficient option, but we would encourage business owners to think of the downside too – that your money is tied up until retirement age."

A third option is to simply leave excess cash on deposit. In this case, businesses are missing a trick. "While you have no choice but to put short-, and even medium-term money on deposit, with longer-term money you should get it growing for you," says Walsh.

Putting it into an investment product can make good business sense. "Business owners take risks every day of the week. By investing in a managed fund, you are in fact diversifying your business."

There are other compelling reasons to consider it. If, as a business owner, you don't distribute surplus money and are in a "close company" with less than five directors, you get hit with close company surcharge tax of 20 per cent, payable on total undistributed investment and rental income.

'DIVERSIFYING THE BUSINESS'

Investment gains are not subject to this surcharge. "It's not a huge bonus but again it's a way of diversifying the business too," says Walsh. It's also a way of potentially growing your assets. "Most business people can see the importance of having all their assets working for them, but they don't generally think of cash in those terms. It's overlooked, which is why sitting down and working through the options with them is such a good process – it opens up those questions."

That includes contingency planning questions. “You need to ask all the ‘what ifs’,” says Walsh. “What if you get sick, what if there’s a hard Brexit, what if sterling appreciates. If your business is doing well and is cash-generative – and plenty of family businesses pay themselves the bare minimum to stay under the tax thresholds – it can make sense to put some of that money into investments. Not all of it, but it’s about getting a particular part of their money working for them.”

Reserves are important for any business. For many, it is what enabled them to survive the last recession. How much any business requires is an individual question, depending on their cash-flow needs or capital expenditure requirements.

For all businesses, however, asking such questions is a good discipline. “It’s a great exercise to sit down and work out if they are using their money in such a way as to get it working for them.”

Being Ireland, some will struggle to see beyond investing any spare business cash in property, despite the still evident scars of the last crash. “I don’t think Ireland will ever switch off property, it’s John B Keane’s Field. And in truth, if a company is renting its premises they might want to think about buying it, and the one next door. It can make sense to do so. But remember, property is highly illiquid,” Walsh cautions.

By contrast, a commercial property fund can have the same potential upsides, but with liquidity. “In the downturn, businesses found themselves very exposed to property, and when things went bad found themselves having to sell at the bottom of the market in a forced sale,” says Walsh. “It’s important to look at the totality of options open to you.”