Begin

Managing your Business Cash Balances

Bank of Ireland

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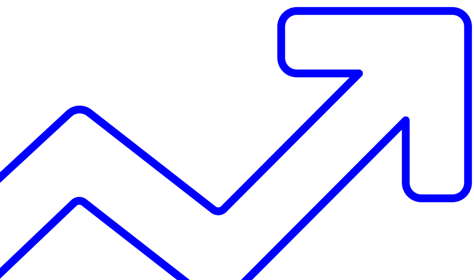
Most company owners would agree that it takes a combination of time, huge effort and significant success to accumulate sizeable cash balances within their business. Having worked so hard to accumulate these cash balances, its timely to consider whether the cash balances are now working for you? It's likely that it's not, if surplus cash is sitting on deposit.

According to the Central Bank of Ireland, Irish Companies (non-financial corporations) held €73.5 billion on deposit at the end of March 2021. Deposits increased by over €12 billion in the year to March 2021, an annual growth rate of almost 20%. (Source: Central Bank of Ireland, Money and Banking Statistics, March 2021)

Deposit balances grew despite the COVID-related business shut-downs and restrictions and in an environment of record low interest rates. The European Central Bank (ECB) has been delivering unprecedented monetary stimulus, in the form of low and negative interest rates. The ECB deposit rate has been in negative territory since June 2014. This has caused most Irish Banks to pass-on these negative interest rates to their large business, corporate and financial depositors. This situation is unlikely to change for some time.



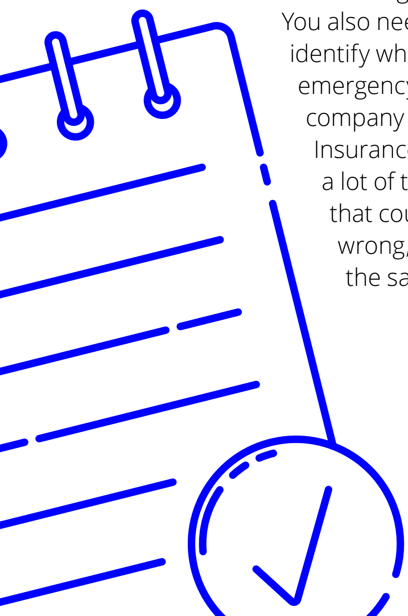
While the official rate of inflation remains benign, many companies are experiencing operating cost increases – some of which are related to BREXIT and due to disruptions to supply chains.

Smart business owners realise the importance of continuing to grow the real value of their assets, in other words, their value after inflation. This involves the company having to do some financial planning and having to take a comprehensive view of their business. So how do they go about it?

Make a Holistic Financial Plan

The first step is to take a snapshot of the business's assets and liabilities; to capture any loan facilities and what levels are drawn and undrawn. Business owners will need to take a look at typical cash flow patterns and identify what role seasonality plays. What does your debtor book look like – have you substantial receipts coming shortly? This analysis has been made more challenging following the COVID disruptions.

The next stage is more forward looking. This is where you set out planned capital expenditure and any acquisition plans that you have in place. This is a really good exercise for company management. You may have a business plan in place for the years ahead. If so, great, it should form a key input here. If not, you should discuss and agree with your co-directors and senior management what direction the business is going in. You also need to identify what level of emergency fund the company needs. Insurance can cover a lot of the things that could go wrong, but having the safety net of some surplus cash is also important. It is a good idea to keep this money in a standalone account to avoid it being associated with day-to-day spending



Cover the Bases – Short and Medium-term needs first

Having completed this exercise business owners should be able to see what level of funds remain after sufficient resources have been allocated to cover short and medium term needs. The funds allocated for short to medium term needs should be held on deposit. The priorities for this money are typically access and security.

For any remaining funds, now may be the time to consider investing with a view to achieving a better return than deposit rates or to diversify away from a reliance on the core trading activities. If you can achieve a return of 3% or 4% per annum from your investments, you could be delivering real growth on the overall sum.

Before you Invest

Before proceeding further you need to check that the business is allowed to invest surplus funds. Your memorandum and articles of association should tell you this. You also need to consider whether it is reasonable for your company to invest at this time. In other words, given the nature and size of your business, is it appropriate for your organisation to take this step?

What is your Company's attitude to risk?

The next stage is to assess your company's attitude to risk. This might be very different to your personal attitude to risk. Companies tend to be conservative when it comes to their money.

Interestingly, although establishing and running a business inherently involves taking risks, some business owners are apprehensive about the risk involved in investing in a fund that holds shares. History has shown that, over time, investing in shares could potentially deliver a better return that that derived from bonds, property and, in particular, cash. However, we know that shares can have their moments. The market movements since early-2020 illustrate how they can react to uncertainty. Every time we saw a fall, it was followed by a sharp rebound.

We also know that there are times when bonds might do well while shares are struggling. This is why not 'putting all of your eggs in one basket' is as relevant as ever. Diversification and allowing time to smooth out the ups and downs are essential ingredients in the investment mix.

Solutions for every type of Investor

Today, there are many solutions to help you get a better return on your money. The question is what are your objectives how flexible can you be in relation to investment timeframe? Some investors will be happy to just beat deposit rates plus a margin for inflation. One of the more popular types of investment is multi-asset funds. These funds invest in a broad range of different asset types in order to spread their investment risks. The percentage of the fund held in shares will typically depend on the level of risk that you are comfortable with. Some providers will also diversify your money across a range of fund managers and investment approaches.

Meeting with a financial advisor to discuss the options available and what may suit your business needs is always a recommended step. A financial advisor can help explain what the options are and recommend the best solution for a company's financial goals.

Tax Implications

It is also important to note that there may be tax implications for companies that invest business assets. Most Irish businesses are treated as "close companies" on the basis that they have five or less owner directors. If they do not distribute interest income, then an additional Close Company Surcharge tax may apply. If this money is invested in a fund, this surcharge tax may not apply. Again, talk to your accountant or financial advisor to discuss what is appropriate for your business.

Bank of Ireland does not provide legal or tax advice. It is recommended that you take professional legal, taxation and financial advice before investing any of your business assets.

Making the most of all the companies assets

Many businesses in Ireland have accumulated sizeable cash deposits. In a substantial number of cases, the company is family owned. The cash is effectively their own but they do not want to be taxed when taking it out. There may be some tax advantages that accrue when extracting money via a contribution to retirement plans as opposed to direct cash transfers. A financial advisor will be able to explain this in further detail. If the business has cash assets that is not needed for the short and medium term needs of the business, and the owners want a better return on a portion of their money than deposits offer, it is well worth getting some quality advice on investment opportunities.

WARNING: The value of your investment can go down as well as up.

WARNING: These funds may be affected by changes in currency exchange rates.

WARNING: If you invest in these funds you may lose some or all of the money you invest.

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