A CHAPTER3 GUIDE

# What Should You Do With *Cash in Your Company?*

*How to decide what the business needs, what may be surplus and what should happen next.*

*A practical guide to retaining enough cash for the company while beginning to build wealth beyond it.*

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# Cash is *not* the problem.

*Cash without an agreed purpose is.*

A strong cash balance can make a business safer. It can help the company:

- pay staff and suppliers;
- meet tax liabilities;
- withstand a difficult trading period;
- act when an opportunity appears;
- invest without relying on borrowing.

That cash is doing a valuable job.

The question concerns what remains after the company's genuine needs and plans have been allowed for. Perhaps the money is being kept for an acquisition, a hire or new premises. Perhaps it is there because the owner wants a particularly cautious reserve. Perhaps it has simply accumulated during several profitable years and nobody has yet decided what should happen to it.

All three can be reasonable. But the purpose should be understood.

> **The objective is not to get every pound out of the company. It is to give every pound a job.**

### The planning question

Does the cash need to:

| | | | |
|---|---|---|---|
| Operate | Protect | Invest in *the business* | Build *personal wealth* |

Leaving the money where it is may still be the right answer. It should be a deliberate answer.

# Three *categories*.

*How much does the business genuinely need?*

*1.*

### Operating cash

The money required for normal trading. This includes:

- payroll;
- suppliers;
- tax;
- ordinary fluctuations in the company's cash cycle;
- commitments already made.

The correct amount depends on how the particular business operates.

*2.*

### Deliberate reserves

Money held for a clear future purpose. That might include:

- protection against a downturn;
- the loss of a major customer;
- an acquisition;
- a hire;
- equipment or premises;
- an agreed bonus or distribution.

A genuine reserve should have an **amount**, a **purpose**, and a **likely timeframe**.

*3.*

### Cash *to review*

The money remaining after operating requirements, liabilities and deliberate reserves have been allowed for. It is not automatically available to extract or invest.

It is the amount that now deserves to be considered against the business plan, the owner's pensions and investments, family objectives, the likely exit timetable, and the amount of risk and liquidity required.

**The first useful decision is not where to invest the cash. It is agreeing how much can genuinely be treated as surplus.**

# Doing nothing is *still a choice*.

*An unplanned balance can create problems later.*

### Purchasing *power*

Cash provides certainty and liquidity. Over a long period, however, the interest received after tax may struggle to keep pace with inflation. Money held for the short term and money held for fifteen years should not automatically be treated in the same way.

### Concentration

The owner may have their income, their business value, their savings and their retirement plan all dependent on the same company. The company can appear wealthy while the family has relatively little personal wealth outside it.

### Future *extraction*

At some point, the owner may want to use the money personally. Dividends, salary, pensions, loan repayments, capital transactions and an eventual sale can all produce different results. The longer the balance grows, the more important it becomes to understand the eventual route.

### Sale *and estate*

Substantial cash or investment activity can complicate the tax analysis around a business sale or estate plan. It does not automatically prevent relief from applying. The position depends on the purpose of the cash, the company's activities and the wider facts, and should be checked with an appropriate tax adviser.

> **The problem is not cash. It is allowing the balance to grow without a purpose, a review date or a connection to the owner's personal plan.**

# What could *the cash do?*

*There is no universal right answer.*

The appropriate plan will often use more than one route.

*1.*

### Keep it available

Retaining the money may be right where:

- the company's risks are material;
- a transaction is expected;
- the time horizon is short;
- access to cash matters more than potential return.

*2.*

### Reinvest in the business

A credible acquisition, hire, product, equipment purchase or marketing programme may provide the best use of the money. The expected commercial benefit should be tested rather than assumed.

*3.*

### Make employer pension contributions

Company pension contributions can build retirement wealth without first paying the money as a dividend. The amount and tax treatment depend on the owner's circumstances and require proper pension and accounting advice.

*4.*

### Invest through the company

Money that will not be needed for several years could potentially be invested through a corporate account. Investment values can fall, and the effect on the company's tax and future plans must be considered first.

*5.*

### Extract money personally

Salary, dividends, loan repayments and other routes may allow money to begin funding:

- ISAs;
- pensions;
- personal investments;
- spending;
- family gifts.

The immediate tax cost should be compared with the personal flexibility created.

*6.*

### Consider a separate structure

A holding company, investment company or Family Investment Company may sometimes be relevant. These are specialist structures rather than default answers and require accounting, tax and legal input.

> **The question is not which route is best in isolation. It is which combination best supports the business and the family.**

# From cash balance to *cash plan*.

*Andrew's company has £800,000 in the bank.*

The headline balance looks substantial. The first job is to establish what it represents.

| | AMOUNT |
|---|---|
| Total company cash | £800,000 |
| Tax and committed payments | £75,000 |
| Normal operating requirement | £175,000 |
| Deliberate contingency reserve | £150,000 |
| Planned hire and equipment | £100,000 |
| **Cash requiring further review** | **£300,000** |

The £300,000 is not automatically an amount that should be invested or extracted. It becomes a planning question.

### The business position

Andrew expects to continue running the company for at least another five years. The business is profitable, but its income can vary and several customers are commercially important.

### The personal position

Andrew has some pension and ISA savings, but most of the household's wealth remains dependent on the business. He would like work to become optional within seven years.

The £300,000 is considered against:

- further business risks;
- Andrew's pension position;
- the family's Freedom Number;
- personal ISA and investment capacity;
- the likelihood and timing of a future sale;
- the need to build wealth outside the company.

The eventual plan may retain some cash, make pension contributions, invest part through the company and extract part personally over several tax years. The exact combination matters less than the change in position:

> **The company still has the money it needs. The remaining cash now has defined purposes and review dates.**

*Simplified illustration only. It is not a recommendation or template. Actual decisions depend on the company, shareholders, tax position and household plan.*

# The *Company Cash Review*.

*Connect the company balance sheet to the owner's life.*

STAGE ONE

### Map the cash

We work with the owner and accountant to understand:

- the current cash balance;
- liabilities and commitments;
- working-capital needs;
- contingency reserves;
- credible future business spending;
- the amount requiring further review.

STAGE TWO

### Connect it to the personal plan

We consider:

- when the owner would like work to become optional;
- pensions and personal investments;
- family spending and major commitments;
- the need to build wealth outside the company;
- the likely timing and importance of a future sale.

STAGE THREE

### Compare the realistic routes

We assess the role of:

- further business investment;
- employer pensions;
- corporate investments;
- phased personal extraction;
- cash retention;
- specialist company or family structures.

STAGE FOUR

### Agree the actions

The resulting plan sets out:

- what should stay available;
- what should be reviewed or deployed;
- what should happen now;
- what can wait;
- who is responsible for each action;
- when each decision should be revisited.

### Working with your accountant

The accountant understands the company, its accounts and its tax position. Chapter3 connects those company decisions to the owner's household, retirement and long-term objectives. Specialist tax and legal advice is brought in where required.

**The strongest plan uses the company knowledge of the accountant and the long-term household perspective of the financial planner.**

# Is some of the cash *waiting for a decision?*

*Start with one conversation.*

A 30-minute introductory call is enough to discuss:

- how much cash the company currently holds;
- what the business genuinely needs;
- whether any balance appears to require further review;
- the owner's pension and personal investment position;
- the likely timetable for stepping back or selling;
- whether a Company Cash Review is likely to add value.

Rough figures are enough for the first conversation. A recent set of accounts, an approximate cash balance and an idea of the company's main plans over the next two years are useful starting points.

If the existing position already looks deliberate and sensible, I will say so.

## Book a 30-minute *introductory call*

BOOK YOUR CALL

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No fee for the introductory call. No obligation to proceed.