

Surplus

This factsheet is designed to give a brief overview of the options available to you if you have a cash surplus built up in your company.

The first point to consider is how much of the company's cash is available to invest, declare as dividends etc. and how much needs to be retained in the company to pay the various liabilities as they fall due. It would be wise to only consider the retained profits of the company and not the actual cash in the bank due to the fact that there is normally cash accumulating in the company account to pay VAT and PAYE on a quarterly basis and Corporation Tax on an annual basis (normally 9 months after the company's yearend).

If you need an estimation of the level of retained profits in your company then please contact your account controller and they will be able to advise on this. Once you have ascertained the company's profits you have the following options available to you:

- 1) Do nothing
- 2) Use high interest accounts/bonds
- 3) Take a loan from the company
- 4) Distribute the funds as dividends
- 5) Make company pension contributions
- 6) Invest in stocks and shares.

This is obviously not a comprehensive list of options but does include the main areas that will be of interest to clients. Each option is explained in more detail below.

Do nothing

This option is pretty self explanatory and involves doing nothing with the company money other than leaving it in the company account where it can earn interest (probably at very low levels in the current climate).

Utilise High Interest Account/Bonds

This option takes the 'doing nothing' option one step further. If you have no immediate plans to use the company's cash you could put it on deposit in a high interest account or company bond, normally you can secure a higher interest rate by agreeing to tie the funds up on deposit for a specific period of time (30 days, 90 days, 6 months, one year etc.). You should, however, remember that once deposited the money is tied up for the whole period and there are normally penalties for wanting to withdraw the funds before the settlement date.

You may be considering these two options as part of your exit strategy for the future if or when you decide to cease contracting and retire perhaps. Many people will accumulate retained profits in the company and distribute these as capital upon closing the company down as this can normally have tax advantages in the form of a lower rate of tax compared to dividends. Please refer to our Company Closure Factsheet that covers this in greater detail as careful planning has to be made when closing the company, especially if there are large sums of money involved.



Director's Loan

This option is not normally advisable due to the potential tax liabilities involved, however, in certain circumstances it can be used. Please refer to our Director's Loan Factsheet for further information on this.

Distribute as Dividends

Instead of retaining the profits in the company you may want to declare them as dividends. It is normally advisable to declare dividends each tax year to take your total gross income (salary, dividends, interest etc.) for the year at least up to the high rate threshold (£42,475 for 2012/13) due to the fact that dividends are effectively tax free up to this level.

However, what happens if your total income exceeds the high rate threshold? In this case, there will be additional tax to pay on the dividends. It may still be advantageous to do this and suffer the additional tax now as you will be able to enjoy the benefits of the dividends received and know the level of tax that will be paid. It is quite feasible that in the current economic climate additional taxes on dividends may be introduced and by retaining profits to distribute at a later stage, you may expose yourself to this risk.

Please remember that dividends can only be paid from profits and that tax on dividends could fall, as well as rise, although this is probably unlikely. For further information on how the tax on dividends is calculated please refer to our High Rate Tax Factsheet.

Company Pension Contributions

Planning for retirement? Company Pension contributions may be for you.

Your company can make pension contributions directly into your pension fund whether it be a stakeholder scheme or a SIPP and these should receive full Corporation Tax relief in the year that they are paid (subject to certain restrictions). They should also be National Insurance free which can make them quite a tax efficient method of extraction; albeit one that ties the monies up until retirement.

Nixon Williams are not authorised to give specific investment advice so we would always advise speaking to a financial advisor before making a decision on this to ensure that you get the right product to meet your needs and to ensure that you do not fall foul of the rigorous pension rules that are currently in place. We do have a factsheet that covers this in more detail if you would like further information.

Invest in Stocks and Shares

Want to try and earn an additional income for the company? Looking at stocks or shares? If this is a route you intend to go down then great care needs to be taken before committing yourself to an investment strategy as these investment areas do carry an element of risk and for this reason it would be advisable to only invest with 'spare' cash i.e. money that can be lost in the unfortunate event of your investments turning bad.

Normally, it is more tax efficient to make your investments personally because you will receive an annual exemption (£10,600 for 2012/13) in which your capital gains would be tax free; companies do not receive an exempt limit. However, companies do receive an indexation allowance which in effect increases the base cost of the investment, this will normally only outweigh the annual exemption in a small number of cases where the investment is very large and held on a long term basis.

You should also take great care if you decide to start investing company funds whether it is in stocks and shares or even in high interest deposits as you may put at risk your trading status if you wish to consider claiming entrepreneur's relief in the future.

You should also consider the implications if your company was deemed to be a closed investment company (CIC); this is unlikely to be the case but would be the case if the company was not 'wholly or mainly' a trading company. CIC's are subject to the main rate of corporation tax, currently 24%.

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