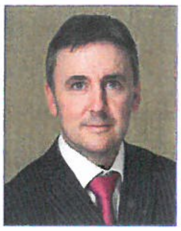
# The Zero Interest Rate Dilemma for Companies



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> Corporate deposits have increased by 22% to €45 billion over the last two years

With the stronger economy over the last number of years, more and more companies have strengthened their balance sheets, building up surplus cash. As a result, corporate deposits have increased by 22% to €45 billion* over the last two years. However this positive outcome has created a dilemma for businesses as this surplus cash is earning virtually zero interest. Protecting company money is important, but it's also critical to ensure that long-term surplus cash works as hard as possible to maximise returns within an acceptable level of risk.

More and more companies are looking beyond deposits to invest their surplus cash. Investing in funds can be an appealing proposition, as it provides the opportunity to achieve potentially higher, as well as more tax-efficient, returns. The innovation in investment solutions in recent years means that the choice of funds has never been more attractive for individuals and corporates.

## Taxation of corporate investments

Most Irish resident companies are close companies. A close company is a company that

- is controlled by five or fewer participators, or
- is controlled by any number of participators who are directors
- on distribution of its full income, more than 50% goes to five or fewer participators or participators who are directors.

Close companies can face a potential 20% surcharge if their non-trading income (such as investment income and property rental) is not distributed within 18 months of the end of the accounting period. This means that companies with money on deposit can be subject to corporation tax as well as the close company surcharge on any undistributed deposit interest. This adds up to an effective tax rate of 40%.

## Using a life assurance structure can be more tax efficient

By choosing to invest long-term funds in a life assurance structure, close companies can avoid the surcharge tax as the investment return is treated as a capital gain and not treated as income.

So for long-term investments, company owners have the opportunity to invest in a more tax-efficient structure with potential for higher returns.

- By investing in a life policy, the company can be exempt from the close company surcharge on any gains, as the returns are not treated as income in the company accounts as long as the funds remain invested in the bond
- The tax rate on the return for companies is currently 25% (tax is deducted at source in the form of exit tax when gains are realised - and this should be the final tax liability)**
- Company money can avail of the attractive gross roll-up† mechanism of life assurance funds – with the growth being compounded over time. No tax is deducted from the policy until either a withdrawal is made, the policy is cashed in, or the investment is held for eight years.

The choice of investments is comprehensive, ranging from low risk options such as cash and bond funds, to absolute return and multi asset funds, and higher risk equity funds. One of the funds that is proving popular with Standard Life's corporate clients is our Absolute Return Global Bond Strategies Fund. This fund targets a return of cash plus 3% per year, over rolling three year periods, gross of fees.

## Liquidity

Liquidity is an important consideration when it comes to company monies. The majority of investment funds are priced on a daily basis so even though funds are long-term investments, they provide the flexibility of being able to switch or withdraw monies on a daily basis.

## A surge in interest

Considering the alternative deposit rate, it's not surprising that we have seen a surge in interest from advisers looking to target this relatively new customer base. For companies, there are plenty of alternative and more attractive investment choices than retaining all of the company cash on deposit. Everyone is mindful of the risks they're taking with their money but with careful consideration, companies can choose investments where their money has the potential to work for them, as well as potentially reducing their tax liability.

**WARNING:** The value of your investment may go down as well as up.
**WARNING:** This investment may be affected by changes in currency exchange rates.

** Retail Interest Rate statistics – July 2016 and Money and Banking Statistics – August 2016 from Central Bank of Ireland statistical releases.*

*** As advised by external tax advisers.*

*† Gross Roll Up is subject to any non-recoverable withholding tax.*