



accounting for success



Nasa Consulting Contractor Newsletter

Investing for financial success

One of the main reasons our clients take the step into the contracting world is to have more control over their financial future, especially as contract work is paid enviously well. Here we point out the advantages to our clients of not just billing well, but also the essential part of building cash or other liquid reserves in their businesses.

In its simplest form, having cash set aside allows contractors:

- financial security in periods without contract work
- to be able to pick and choose roles and rates for professional development

A characteristic of many financially successful companies is having large cash and liquid asset reserves. Much maligned Ryanair for example had £2 billion of cash reserves as the current recession took hold, giving it a great chance not just to get through this recession, but also to snap up competitor routes and businesses. Another example can be found in Warren Buffet's investment company, Berkshire Hathaway, which was able to capture a significant percentage of the investment bank Goldman Sachs, by having piles of cash available during times of banking recession.

Business growth

Without suggesting everyone is going to turn into Michael O'Reilly or Warren Buffet, one of the background thoughts that small businesses always have is on how to convert to multi-person companies, with new employees taking over some of the business generation responsibilities. Amongst the steps of progression, cash reserves are absolutely essential for:

- financing the implementation of business plans
- recruiting staff
- acquiring premises
- maintaining a lifestyle, whilst costs ramp up and are only later matched by higher revenue

One of the reasons clients don't hold cash is that it appears to be a waste. With interest rates from banks currently negligible, it's often cited as being better value to pay off personal debts than leave money on bank deposit; an argument that holds some merit.



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Investment opportunities

However investment options for companies include investing in equities and bonds on recognised stock exchanges. With many blue chip equities now offering high rates of return as well as growth potential for company reserves - with the right advice - companies can build reserves very effectively. Of course professional advice is as essential to corporate investors as it is to private individuals and most banks, stockbrokers and investment advisors are only too keen to provide advisory services to their premier clients. Investing in the company name means no higher rate personal tax as opposed to where there is drawing of the money for investment in an individuals own name.

Other benefits

Although business expansion is not for everyone, it does not remove the advantages of holding liquid assets. For those who use their companies as lifestyle vehicles, investing some of their company revenue in high yield or growth funds means there are reserves for holidays and periods of leisure between contracts.

Another of the advantages of holdings cash and investments in a company is for retirement from economic activity. The reserves or investments can be drawn down on and if kept below the higher rate tax thresholds, can form a completely tax free retirement fund. When it comes to pension contributions, we of course are only too pleased to recommend a financial advisor to our clients, as corporate contributions to pension funds avoid the payment of 21% corporation tax, just as any expense does.

We therefore frequently advise our clients that for the stability of their businesses, for the ability to grow and for economic freedom, it is essential to develop an asset and reserve base in their businesses. We recommend relationships with financial advisors, banks and stock brokers, a characteristic of many growing and successful companies.