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Got Extra Cash? Decide Where to Put It.



By Roger Pierce, Small Business Expert

It sounds like a nice situation: extra money in your bank account.

But you know better. You know that money sitting idle is a waste of – well – money. It could be earning interest, reducing debt, used for expansion or put into savings. You've worked hard to earn that money, so it seems only fair that your money return the favour by working for you.

The questions arise: Should you leave extra cash in the company? And, for what purpose? Is it better to withdraw the money as a dividend or salary and invest in a Registered Retirement Savings Plan (RRSP), Tax Free Savings Account (TFSA), or other investment vehicle? What are the tax implications of those options?

Unfortunately, there is no one-size-fits-all solution. "Entrepreneurs have the extra burden of deciding whether their business needs the cash more than they do personally," comments Financial Planner Rona Birenbaum.

"Deciding how best to deal with excess cash is best accomplished in the context of a comprehensive financial plan. A comprehensive approach can assess where the financial risks are that cash could address – whether business or personal – and which financial priority is most underserved," she explains.

Birenbaum is a Certified Financial Planner and founder of Toronto-based firm Caring for Clients (<http://www.caringforclients.com/>), where she assists a range of clients including executives, professionals and business owners.

The case for reinvestment

Perhaps the biggest appeal of reinvesting extra cash is the opportunity created to generate more money and incremental gains. That money could be used to fund expansion into foreign markets (<https://getahead.fedex.ca/government-export-resources>), purchase newer equipment, hire more employees and ramp up marketing. The funds could be used to build your business to a stage where it produces a desired income for your family, or to groom operations to make the business more attractive to a buyer.

And, if you are living comfortably on your current draw, you may not see a need to take any more money out of the business.

On the flip side, business can be volatile. Things can go wrong. And many entrepreneurs

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who left their fortunes inside the company have been burned when business soured.

Birenbaum encourages strategies to mitigate that risk. "It's tempting to go 'all in' when building a business, and many entrepreneurs view their business as their retirement plan. We always recommend establishing a parallel plan that ensures that the entrepreneur is building wealth outside of the business in the event that the business doesn't achieve the financial success that was expected – or in case the business fails outright."

The case for retirement savings

How close you are to retirement will certainly influence your personal financial strategy. People just starting their careers have a longer timeline to build a nest egg, while those nearing retirement may need to increase their savings contributions or embrace more aggressive investment strategies in order to meet desired financial goals. For folks in the latter group, the business may need to work harder to generate sufficient income for them.

Taking that extra cash out of your business may accomplish several objectives:

- It may advance your personal savings plan toward your goal;
- It may help you to create or maintain a balanced wealth portfolio, where some of your wealth remains as business equity while other assets are put to work outside the business; or,
- It could be used to pay down or eliminate debt.

"For entrepreneurs in low personal income tax brackets, reducing personal and mortgage debt is an obvious choice," suggests Birenbaum.

Because most entrepreneurs are too busy to pay close attention to their investments, it's always a good idea to consult qualified professionals to assist them with investment management.

For example, deciding on an RRSP or TFSA can be a complicated decision for entrepreneurs: RRSPs lock the money away, while a TFSA gives the business owner access to the funds.

"Business results can fluctuate significantly year over year, and so the RRSP decision is best made annually following a review of the current tax year and an assessment of expectations for the following tax year," says Birenbaum.

With so many parts of your financial life interrelated, it's important to take a comprehensive approach to financial planning. Consider working with a team of experts including a financial advisor, an accountant (<https://getahead.fedex.ca/how-to-find-the-best-accountant>), a lawyer and perhaps a wealth management specialist.

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