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Strategy for withdrawal or management of non-business-critical liquidity

Avoid negative interest

The economic consequences of negative interest rates are forcing many SMEs to think about how they use and manage excess liquidity. Credit Suisse offers two solutions for this.

1. Review of the withdrawal strategy
The retention of profits is a proven and, for many companies, popular strategy. The advantages of excess liquidity are obvious: On the one hand, it serves as a reserve for future investment needs and allows a company to seize strategic opportunities; on the other hand, it acts as a cushion against unexpected lean periods.
However, the capital often remains in a bank account where the historically low interest situation means it is subject to negative interest, thus incurring costs. It is therefore worthwhile to examine alternatives for non-business-critical liquidity, and to take a good look at your withdrawal strategy.

What aspects do you need to consider?
The withdrawal strategy involves a review of how to distribute existing liquidity:
- Dividends
- Capital repayments/par value reductions
- Shareholder loans

However, distributions are also possible with limited liquidity:
- Dividend recapitalizations
- Use of debt capacity for distributions
- Setup of extra-mandatory insurance

An in-depth analysis is carried out to determine possible ways to optimize the distribution strategy, in particular with regard to issues such as:
- Type, amount, and timing of withdrawals
- Level of the distribution and recipient (private assets – business assets)
- Diversification of private and business assets

To begin with, our experts carry out an analysis of your salary, dividends, and employee benefits insurance. The goal is to optimize your income and assets.

2. Investing in business assets
If you decide against distribution, you can gain the following advantages by investing non-business-critical liquidity at the company level:
- Avoidance of negative interest
- Attainment of an investment return
- Optimization of currency needs

The investment strategy must suit the company
Companies should start by precisely defining their excess liquidity. This can then be used as a basis for developing a suitable investment strategy for non-business-critical capital.

Determining the right investment instruments for your business depends on a variety of factors.
- On the one hand, you want your investments to be as secure as possible to avoid any unnecessary risk to your business assets.
- On the other hand, your investments should be as liquid as possible so that you can access them quickly when you need them.
- Additionally, your investments should be aligned with your business activities, corporate goals, and your company's specific situation.
- In particular, you need to factor in your company's currency mix, since it may offer attractive investment opportunities involving hedging strategies.

Analyzing tax framework conditions for business assets*
If you invest liquidity at the company level, you may be able to benefit from the tax features of the book value principle: Although capital gains are subject to tax, capital losses can be offset against gains.

It is important to take this fact into consideration when implementing your investment strategy.

* Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. This material does not contain tax advice of any kind. Any tax-related general information provided with this material is not a substitute for comprehensive individual tax advice. You should consult with a professional tax advisor as you deem necessary.

Data source: Credit Suisse, unless otherwise specified.

Contact us
We would be happy to arrange a personal consultation.
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* Telephone conversations may be recorded.

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