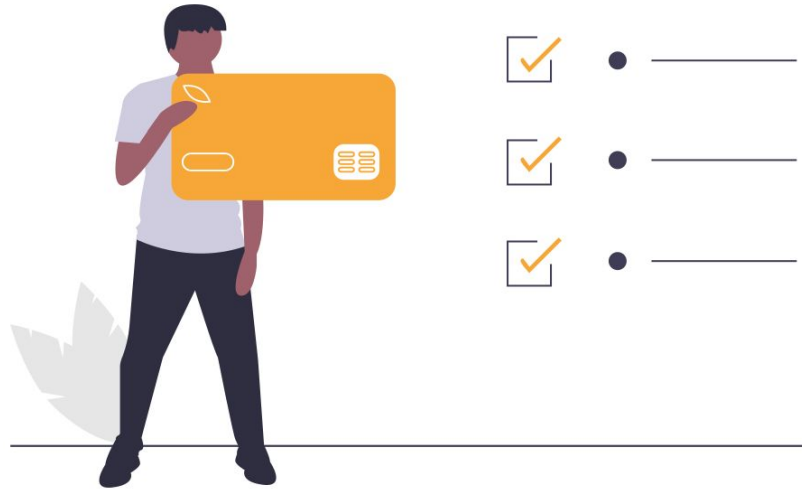


# Business Bank Account Guide



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Picking the right account for your small business can be a minefield, but we've made it easy for you to find the best perks, the lowest fees and the cheapest overdraft charges.

## **What is a business bank account?**

Business bank accounts are aimed at both start-ups and established businesses. Banks usually charge business customers a monthly or annual fee, although many offer a fee-free period of up to two years for new customers and startups. As with personal bank accounts, you can make deposits and withdrawals, use a debit card for purchases, and apply for an overdraft. The difference is that most banks will charge you per business transaction so you may have to pay a small fee every time you deposit cash, issue a cheque, set up direct debits and standing orders, or make a bank transfer. This guide explains how business bank accounts work, how charges are applied, and helps you compare the full range of accounts currently available.

## **Who offers business bank accounts?**

Most of the big high street names offer a range of business bank accounts. These include: Bank of Scotland, Barclays, Clydesdale Bank, HSBC, Lloyds Bank, Metro Bank, NatWest, Royal Bank of Scotland, Santander, the Co-operative Bank, TSB and Yorkshire Bank. Challenger banks Starling, Wise and Monzo are also competing in this market, along with e-money providers Coconut and Tide.

## **Can I use my personal account for business?**

It depends on the type of business you run, and how lenient your bank is. Limited companies are required to have a business bank account, as they are separate legal entities from the owner or directors. Sole traders can theoretically use a personal current account for business transactions because HMRC treats their personal and business income as one. In reality, most banks state in their terms and conditions that individual accounts can only be used for personal use and not for business purposes. That said, they are likely to be less concerned about a self-employed copywriter than a shop owner making lots of business-related transactions.



## What are the benefits of a business bank account?

While using a personal account for very basic business transactions will be the cheapest option, having distinct accounts is much easier for tax purposes and working out tax-deductible business expenses. It will appear more professional if customers or clients can make payments to the business name, instead of your personal name. You can also cash-in cheques made out to the business and build up credit history so that it's easier to apply for a business loan or credit card. Banks may offer business customers extra support, such as a local 'relationship manager' and online tools to help with accounting and invoicing.

## Compare business bank accounts

Here, we've rounded up the leading business bank accounts for sole traders and limited companies with no minimum annual turnover requirements. Other fees will apply e.g. for foreign transactions, bulk deposits and CHAPS payments. We've excluded some of the digital-only options as they don't have the same levels of protection. But you can read about those [HERE](#).

## Business bank account fees and overdraft charges explained

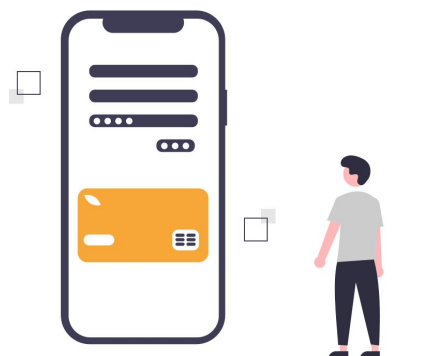
Business bank accounts carry fees for many of the transactions personal current account customers are used to getting for free.

Broadly, these are the main categories to think about when you're looking at the list of fees and charges in the terms and conditions:

- Automated payments (in or out)
- Cash payments (in or out)
- Manual payments (in or out)
- Additional payments and services
- International transactions
- Overdraft charges

## Challenger bank Apps Starling, Monzo, Tide and Wise

These apps are packed full with features designed to help with the day-to-day running of your business. All three accounts provide a full UK account number and sort code plus a Mastercard debit card. You must already hold a personal current account with Monzo, wise or Starling to apply for their business accounts. Start-up Coconut has designed a current account with freelancers in mind, making it easier to estimate tax-deductible expenses and send professional invoices. The fee-free 'Start' account is limited to three invoices per month, while the £5-per-month 'Grow' version lets you send unlimited invoices.



# Pros & Cons of a challenger bank

Challenger banks are smaller operations compared to traditional banks, and most are almost exclusively online. They argue that they offer a more streamlined and efficient service than big banks.

Although they have proven popular with personal and business customers, they still have a lot of ground to make up on the big banks. Here are some of the pros and cons of challenger banks.

## Pros

### Quick to Set up and Easy to use

When you want to open an account with a high street bank, the process can take a while and you'll probably have to go along a branch and fill out forms and bring ID with you. Challenger banks take a lot of the hassle out of opening a new account. In many cases, you can have a new account up and running in a couple of hours.

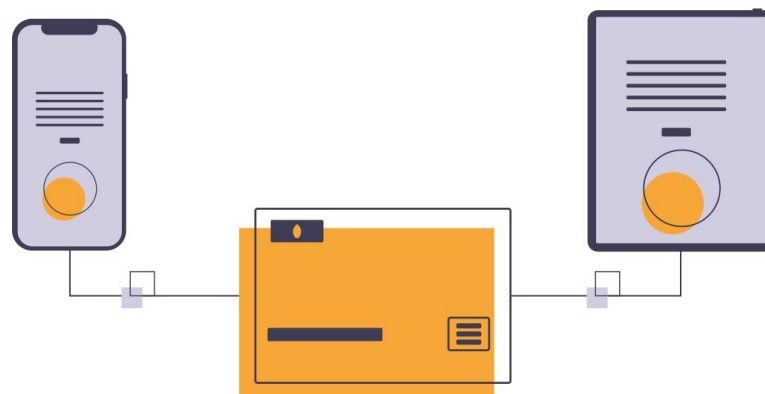
Once you're up and running, they operate in much the same way as any other current account in that you can pay money in and out, set up direct debits and standing orders and keep an eye on your balance.

### Low Fees

Not only do they take a lot of the work out of setting up, but most challenger bank accounts also offer substantially lower fees than regular bank accounts. This is down to the fact that they don't have to maintain physical branches and pay rent and allows them to be highly competitive.

### They've got the Edge in Tech

When the traditional banks started embracing technological advances, such as online banking and mobile banking, the transition was slow. Many of them were used to doing things a certain way for, in some cases, centuries. Challenger banks don't come with that past baggage as they are coming from a starting point of focusing on technology throughout. This allows them to be at the forefront of the latest advances and make their products more efficient and user friendly.



## Pros & Cons of a challenger bank

### Cons

#### **You're Still Subject to a Credit Check**

Although they are styled to take on the establishment, challenger banks still must have a banking licence to operate and therefore, they are required to carry out credit checks when you apply for a new account. This means that for people with poor credit history, CCJs or have been previously declared bankrupt, they may not be a viable alternative to mainstream banking.

#### **You may not Have the Same Level of Protection**

This may be a concern specifically for business customers who enjoy the security of larger, more established banks. Like all financial institutions in the UK, challenger banks must abide by the rules set out by the Financial Conduct Authority (FCA).

Under the Financial Services Compensation Scheme (FSCS), deposits up to £85,000 are protected. This might be adequate cover for personal customers, but business customers used to dealing with larger sums of money may feel the security of an established branch gives them greater peace of mind.



## What else do I need?

UK Finance - the main trade association for the banking industry - has made a comprehensive list of information banks will want but this graphic covers some of the basic details you will be asked to provide.

## Opening a business bank account

-  **BUSINESS NAME** - its legal and trading names, business start date, plus the business address and contact details.
-  **BUSINESS DETAILS** - the main business activity and details of customers or suppliers you trade with outside the UK.
-  **EMPLOYEES** - the number of people who work for the business including full-time, part-time and non-contract workers.
-  **TAX ID NUMBER** - your National Insurance number (sole trader) or 'unique tax reference' (limited company/partnership).
-  **MONEY IN** - how much money you expect to pay into your business account, estimated annual turnover, details of your sources of income.



## Can I switch my business bank account?

As long as you're a small businesses, charity or trust with less than 50 employees and an annual turnover of less than £6.5m, you can switch your business account within seven working days through the free Current Account Switch Service, just as you would a personal account. This means the switch is backed by the Current Account Switch Guarantee, so any missed payments or fees incurred as a result of your switch will be reimbursed. Check the list of participating banks and building societies to make sure you can switch.

## Are business accounts FSCS-protected?

Yes, the Financial Services Compensation Scheme (FSCS) protects individuals and small businesses from losses, should an authorised bank or building society fail. For deposit claims (money held in savings and current accounts) there is no size restriction for companies. For investment claims, the FSCS will protect a small company, as defined in section 382 of the Companies Act 2006. For most general insurance claims, annual turnover must not exceed £1m and for long-term insurance claims, there is no size test for companies.

## Can I apply for a business savings account?

Business savings accounts tend to pay lower rates than personal savings accounts. If you're a sole trader, any money the business makes is in your name so the best option will be to move profits into the best personal savings account on the market.

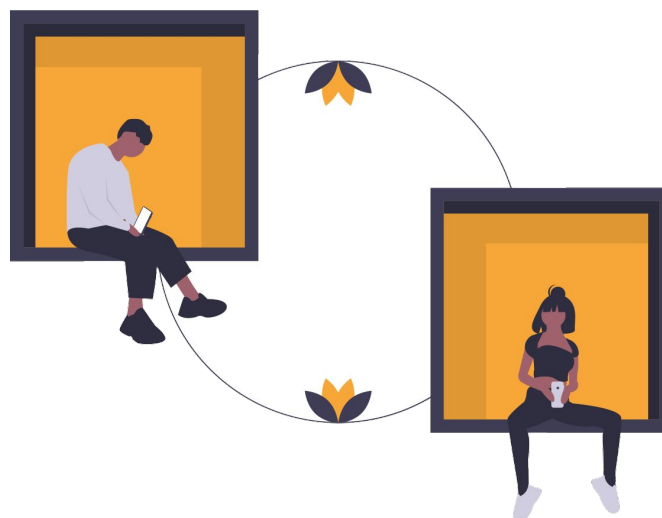
Use the Which? Money Compare tables to find the best savings rates. If you have a limited company, the money legally belongs to the company so you can't move that money into an account in your own name.

- Instead, you can open a business savings account from providers such as:
- Aldermore Al Rayan
- Clydesdale Bank
- Cynergy Bank
- Hampshire Trust Bank
- Market Harborough BS
- Teachers BS
- Virgin Money
- Yorkshire Bank.

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