



# AN INTRODUCTION TO BUSINESS BANK ACCOUNTS

## Who needs a business bank account?

If you're starting a business you'll need to set up a business bank account. This guide should help you.

Before you start your online auction business use this guide to help you set up a business bank account

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## Introduction

Opening a business bank account is one of the first and most important steps to take when starting a business. Most businesses could not operate effectively without the services a bank account provides and a good rapport with a bank's relationship manager can be extremely beneficial. There are many different types of business bank account available, each with different benefits and costs. It is important to compare the differences between accounts and choose one that is best suited to the needs of your business.

This factsheet describes the different types of business bank accounts, the services they include and the associated costs. It also provides information on how to choose and apply for a bank account. It contains hints and tips and sources of further information.

## Who needs a business bank account?

Every limited company or partnership should have a business bank account. If you are a sole trader you can use your personal bank account for business purposes, although some banks may place restrictions on the use of 'free' personal accounts. In any case, it is good practice to keep business funds and transactions separate from personal ones.

## What types of business bank account are available?

There are many different business accounts available and they can be divided broadly into two categories:

- Current accounts, or cheque accounts, for day-to-day banking transactions.
- Reserve accounts, or savings accounts, for funds that do not have to be immediately accessible.

Current accounts are the most common type of business account and every limited company and partnership should have one. Reserve accounts are for businesses that have surplus cash that is not needed for day-to-day operational use. They generally pay a higher rate of interest than current accounts and may lock funds away for a set term.

Some banks provide business accounts specifically tailored for certain types of businesses, such as start-ups, small businesses, charities and community organisations. Several banks offer Islamic bank accounts, compliant with Sharia law and suitable for Muslim business owners. Each type of account offers different features and services so that you can choose the one that best suits your business.

One of the most important aspects to consider is how you want to access and operate the account. Typically, business accounts can be operated via one or more of the following methods:

- In person, at the branch.
- By post.

- By telephone.
- Online.

Some bank accounts offer additional methods of access, for example via mobile phone.

If your business is the type where you will regularly pay in cash, you are likely to prefer to have access to a bank branch with a counter service. Alternatively you may find online banking essential, allowing you to check balances and make payments from your computer. Online-only accounts are unlikely to provide certain useful facilities, such as paper statements.

### **What services do business accounts typically provide?**

In its most basic form, a business bank account offers a means to deposit and withdraw money and can be operated via a paying-in book and a cheque book. However, most business accounts provide extra services and facilities, some of which may be essential to your business. You should therefore check that an account provides all the services you need before making an application.

Most business current accounts provide a:

- Paying-in book, usually with supplies of ATM deposit envelopes and pre-paid postal deposit envelopes.
- Cheque book, sometimes with a cheque guarantee card.
- ATM card for cash withdrawals, or:
- Debit card, for example Visa or MasterCard, for making payments.

Most business current accounts also pay a small amount of interest on in-credit balances, typically around 0.1% Annual Equivalent Rate (AER).

## **What is a reserve account?**

A reserve account is essentially a savings account for a business. You can use it to deposit surplus cash and receive a slightly higher rate of interest than from a current account. However, there are certain restrictions placed on business reserve accounts.

In general, you can only make payments from a reserve account in the name of the business, either electronically into a nominated account in the name of the businesses, or by cheque payable to the business. Therefore reserve accounts are not suitable for making day-to-day transactions such as paying bills and you will need a current account in addition to a reserve account.

## **How much do business current accounts cost?**

Unlike personal bank accounts, which are often free to operate when in credit, most business bank accounts have charges associated with their day-to-day use. Typical charges are:

- Standing charge, for example £5 per month or £1 0 per quarter.
- Transaction charges, for example 40p per cheque paid in.

Transaction charges can include credits and debits, such as cash, card, cheque and electronic deposits or payments, including direct debits and standing orders.

Some business accounts do not apply a standing charge and some do not apply transaction charges. Some apply transaction charges only after a certain number of transactions have been made, for example 50 free transactions each month then 50p per transaction.

In an effort to attract new customers in a competitive marketplace, some banks offer free business banking for a limited period, for example 12 or 18 months. During this period, no standing charge or transaction charges are applied. However, you should budget for those charges being introduced once the introductory period ends. On the other hand, some banks offer free business banking with no time limits, although the services offered by these accounts tend to be more restricted.

### **How much do reserve accounts cost?**

Many reserve accounts have minimum balances attached and in order to open one you will have to deposit a set sum, for example £100,000. Other accounts offer varying interest rates, with higher balances attracting higher interest rates. Some reserve accounts have a maximum balance.

Some banks offer fixed-term deposit reserve accounts, where funds are locked away for a set period of time and a higher rate of interest is paid. Before depositing cash into this type of account you should ensure that your business will not need the funds before the fixed term expires. A financial penalty is often applied if funds are withdrawn within the fixed term agreement.

### **What other charges can apply?**

As in the case of a personal bank account, a business current account will apply charges for any unauthorised use, such as becoming overdrawn or issuing or receiving unpaid cheques. Interest can apply on overdrawn balances. Some banks also apply a charge for sending a letter advising of an unauthorised use.

Charges can also apply to other non-standard activities, such as stopping cheques, requesting duplicate statements or other documents, making Clearing House Automated Payment System (CHAPS) payments, issuing banker's drafts, exchanging cash and requesting banker's references or auditor's letters. These charges can be relatively high, for example CHAPS payments can be charged at up to £40 each. It is therefore worth shopping around to find an account with low charges for the services your business will use regularly.

### **What extra services do business bank accounts provide?**

As well as the standard services provided by most business bank accounts, many accounts provide additional important and useful services.

- An overdraft facility is useful to many businesses but not all business accounts provide one. You should therefore check overdraft terms when comparing bank accounts because unauthorised overdrafts can attract high levels of interest and other charges.
- Some banks provide night safe and secure keeping facilities. Usually there is an annual or per-deposit charge associated with this service.
- Most banks provide business customers with facilities allowing the receipt of credit and debit card payments, such as chip and PIN readers and separate merchant accounts.
- If your business conducts financial transactions in more than one currency you may need a bank account that will hold balances in sterling, dollars and Euros. Some banks charge for processing transactions in a foreign currency.

- Some business accounts also include credit check services and business data backup.
- Most banks offering business bank accounts also provide business loans. However, the fact that your business has an account with a particular bank does not necessarily mean that you will be offered a suitable loan. Similarly, your business is not tied to the bank you hold an account with and you are free to approach other banks and lenders to request a loan.

Another important service provided by certain banks is business support and advice. Although some banks still offer the traditional option of making an appointment to see your local branch or account manager, support is more likely to come from business advisers within the branch, or more typically via a telephone helpline. Several banks provide their business customers with access to start-up resources, such as booklets and factsheets, business planning software and the opportunity to attend business seminars.

### **How do you choose a business bank account?**

With so many different business bank accounts on offer you should choose carefully in order to ensure that the account is suitable for your business. Although it may be tempting to stay with a bank with which you are already familiar through your personal accounts, it is worth shopping around to see if better facilities are available elsewhere. When comparing accounts, key things to look for include:



- Type of account. Will a current account suffice, or does the business need a reserve account?
- Means of access. Is online access or counter service required?
- Services provided. Does the account provide ATM access and a debit card?
- Minimum deposit. Is there a minimum deposit attached to opening an account, particularly for reserve accounts?
- In-credit interest. How much interest does the account pay, and is it linked to the balance?
- Introductory offers. Does the bank offer free business banking for an introductory period?
- Standing charges. How much does the account cost per month or per quarter?
- Transaction charges. Which transactions are chargeable and how often will your business use them?
- Other charges. Is your business account likely to require nonstandard activities such as making CHAPS payments?
- Overdraft facility. Does the account offer this potentially valuable facility?
- Support and advice. What type of business support is available and how can you access it?
- Extra services. Does the account provide a night safe, electronic

payment facilities and other services?

There are several online comparison services that can help when choosing a business bank account, including those provided by:

Moneyfacts.co.uk:

[\(http://moneyfacts.co.uk/business/\)](http://moneyfacts.co.uk/business/)

Moneysupermarket.com:

[\(http://www.moneysupermarket.com/current-accounts/business-bank-accounts/\)](http://www.moneysupermarket.com/current-accounts/business-bank-accounts/).

### **How do you open a business bank account?**

The application process for most business bank accounts is relatively straightforward. You will need to complete an application form providing information about the business and its owners or directors. Many banks allow this application form to be completed online.

Typical information that must be supplied includes:

- Name and address of business.
- Name and address of owners or directors.
- Purpose of business.
- Estimated turnover.
- How the business is funded.
- List of account signatories (anyone authorised to sign company cheques).

Some banks require more detailed information about the business and may ask to see a formal business plan. Limited Companies may need to submit their certificate of incorporation.

In most cases the bank account will be opened in the name of the business, but if you run your business as a sole trader or partnership you may need to open an account with a 'trading as' or 'T/A' name, for example 'John Smith T/A London Plumbers'. In this case you may cash cheques that have been made payable to 'John Smith' or 'London Plumbers'.

If you are not already a customer of the bank you will need to send proof of identity and address (usually two forms of identification are required). The following are types of identification that are usually acceptable:

- Current passport.
- Current driving licence.
- Recent bank or building society statement.
- Recent utility bill.
- Recent local authority or council tax bill.
- Recent HM Customs & Revenue (HMRC) tax notice.

If you apply online you will need to send proof of identity by post after submitting the application form.

### **How do you switch bank accounts?**

If you are unhappy with your current business bank account it is relatively straightforward to switch to another one. Banks that subscribe to the Banking Code of Business Sourcebook (BCOBS) are required to make switching accounts a quick and simple process for their customers.

For example, the new bank must handle the transfer of standing orders and direct debits and the old bank must send details of these payments to the new bank within three days. The new bank must set up the payments within four days. If a bank fails to meet these requirements, customers may be entitled to compensation.

The process of switching business bank accounts involves the following steps:

- Complete an application form to open an account with the new bank.
- Complete a form giving the new bank permission to request information from the old bank.
- The new bank arranges switching of standing orders and direct debits.
- Funds are transferred to the new account.
- Customers who make electronic payments are informed of new bank details.
- Monitor both accounts to ensure the switch has gone through successfully.
- Close the old account.

### **Hints and tips**

- Use online comparison websites to compare the services, interest rates and charges of business accounts.

- Give particular consideration to the different overdraft facilities offered if this is an important factor for your businesses.
- Remember that while online access may be important to your business, online-only accounts may be unsuitable if you regularly deposit cash.
- If you are a sole trader consider avoiding business account charges by opening a separate personal account instead.
- Be aware of the dates when introductory free banking offers are due to end so that you can budget for the charges that will ensue.
- Remember that holding a business account with a particular bank does not entitle you to a loan from that bank, although a good relationship with the bank may help.
- Consider using different banks for different services, for example when one offers a better current account and another offers a better reserve account.
- Consider changing accounts if you can get a better deal from another bank.

# Small Business Resources

Add value to your brand by generating catch business and product names like Amazon, Google, Coca Cola, Yahoo, Blackberry and many more using the same business name generator used by top business and product naming companies: <http://www.businessnameidea.com>

Generate more leads, cash flow and profits for your business and pay only based on results. This web site connects small businesses with top traffic web sites like Google, Facebook, Youtube to generate constant flow of traffic and leads: <http://www.intelwebsolutions.com>

Information and tools for small business to help entrepreneurs develop and market their business and ideas: <http://www.2-small-business.com>

Looking for a business grant or small business financing? Go to “Grants For New Businesses Now”: <http://www.grantsfornewbusinessesnow.com>