

## Contractors' bank deposits are protected - up to a point

As the banking crisis deepens, contractors and owners of small businesses are becoming increasingly concerned about the safety of their cash deposits. These are protected, but only up to a point.

From 7th October 2008, savers' deposits of up to £50,000 are protected by the [Financial Services Compensation Scheme \(FSCS\)](#), which describes itself as "the UK's statutory fund of last resort for customers of authorised financial services firms."

The FSCS will pay compensation to consumers and some businesses in the event that the financial institution holding their savings cannot pay. However, there are limits to the compensation and rules about eligibility.

### Contractors' personal savings

Contractors' personal savings of up to £50,000 are guaranteed, as long as those savings are with a firm authorised by the [Financial Services Authority \(FSA\)](#).

The limit applies to each saver's total deposits in a financial services firm, regardless of how many accounts they have or whether those accounts are in single or joint names. So a couple with a joint account would be covered to a combined total of £100,000.

If a contractor has more than £50,000 saved and the bank could not pay, then any additional money received above the £50,000 would depend on how much money was raised when the financial institution is liquidated, which could be nothing, or everything, or something in between.

“ The FSCS will pay compensation to consumers and some businesses in the event that the financial institution holding their savings cannot pay ”

The scheme works both ways, so if a contractor also has a mortgage or loan with the institution where they have savings, they will receive the net amount. For example if they had a mortgage of £200,000 and savings of £150,000, the contractor would actually owe the financial institution £50,000.

As highlighted with the recent collapse of the Icelandic internet bank Icesave, the government seems prepared to be very flexible in its approach. Chancellor Alistair Darling quickly confirmed that all British savers with Icesave accounts would get all their money back, even if their deposits were greater than the £50,000 limit.

### Contractor's business banking deposits

Although the FSCS was created to assist individual consumers, smaller businesses are also covered if they satisfy certain criteria.

In order to qualify for compensation a business must meet two of the following criteria:

- o A turnover of not more than £6.5 million
- o A balance sheet total of not more than £3.26 million
- o 50 employees or fewer.

All contractors working through their own [limited companies](#) would therefore be eligible for compensation, although the same levels of compensation apply. If a contractor has more than £50,000 in their business bank account and their bank fails, then they could potentially lose any cash in the account above £50,000.

### What happens if the bank becomes insolvent?

If a contractor has a personal or business account with a bank or building society that becomes insolvent, the FSCS would contact the contractor directly with an application form.

The rules about existing loans and mortgages with the failed bank or building society would apply and the contractor would receive, or possibly owe, the net amount.

Contractors should check that their bank or building society is covered by the FSCS by searching the FSA website. Banks that are incorporated in another country in the European Economic Area (EEA) may also be covered by the scheme, but the contractor would have to check with the FSCS.

For many contractors, the £50,000 limit may fall well short of their net cash assets. For contractors who hold multiple accounts in banks that are part of a larger group and each of these banks is separately authorised by the FSA, then the FSCS would pay compensation up to the limit of £50,000 per person, per authorised bank.

At this challenging time, contractors would be advised to consult their financial advisers before make any decisions about moving investments and cash deposits.

### HMRC - the safest of safe havens?

Anecdotal evidence suggests that some contractors with limited companies, who have been putting money aside for future tax payments, are choosing to make early payments of Corporation Tax to HMRC. Not only is their money 'safe' with the taxman, but HMRC even pays taxable interest on the overpayment.

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