

Business bank account savings protection under FSCS

Limited company contractors concerned about the safety of cash held on deposit in their business bank account are covered by the same protections under the **Financial Services Compensation Scheme** (FSCS) that protects cash bank deposits held by individual savers.

If a contractor's bank went bust, their limited company would receive compensation of up to £75,000 from the FSCS, because contractor limited companies qualify as 'small businesses' under FSCS rules.

However, **umbrella company contractors** could be at greater risk if their umbrella company's bank fails, because most umbrella companies would not qualify for protection and compensation, as larger businesses are generally excluded from the scheme.

Contractor limited company bank deposits

By banking their profits, as well as saving for corporation tax, 'holiday pay' and to cover spells out of contract, contractors can very quickly accumulate large cash deposits in their business bank accounts. These could be at risk if their business banking provider failed.

However, the **FSCS confirms** that it will provide the same level of compensation for a small company, up to £75,000, as individual savers enjoy.

For a contractor limited company to qualify as a smaller company, it must satisfy the following conditions:

A sales turnover of less than £6.5m

A balance sheet total of not more than £3.26m

Having fewer than 50 employees.

Under these criteria, it is likely that most, if not all, single contractor director and shareholder limited companies would qualify for compensation. This would mean that if a contractor's bank went bust holding £75,000 of the company's money, and the bank was part of the scheme and has a 'compensation licence', the company would be compensated with £75,000.

The importance of bank 'compensation licences' for balances in excess of £75,000

If a contractor has more than £75,000 held by one bank and the bank fails, the contractor's business would not be compensated for cash on deposit above the £75,000 threshold.

Contractors can address this issue by spreading their cash across different banks, because the rules say that the company will benefit from the £75,000 compensation coverage once under each bank's 'compensation licence'.

So, a contractor with £120,000 on deposit could place £75,000 in one business bank account and the balance, £45,000, in another account with a different bank that has a separate compensation licence. This would ensure that, in the event of one or both banks failing, the contractor's money would be safe.

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How to tell if a bank is covered by FSCS with a separate 'compensation licence'

Not all banks trading in the UK and offering business bank accounts are members of the Financial Services Compensation Scheme (FSCS) and hold a 'compensation licence'. Some overseas banks have no such guarantee.

This is further complicated by the fact that different brands or trading names may belong to the same banking group, which may only have a single 'compensation licence'. A contractor might think that having savings with AA Financial Services, **Bank of Scotland** and BM Savings is spreading the risk. However, at the time of writing, all three of these brands use a single licence issued by HBOS.

Contractors should check with each bank where they have a business account to ensure they don't share the same licence. Alternatively, there are **online resources** that provide up-to-date lists of banks and licences.

Umbrella company contractors

The situation for umbrella company contractors is potentially very different. Because the majority of contractor umbrella companies would not qualify for compensation under the scheme because either their turnover was above £6.5m or they have more than 50 contractor employees, any cash received from clients or agencies that have not been immediately paid to the contractor would be at risk if that umbrella company's bank failed.

In theory, the umbrella company would still be required to pay the contractor. But in practice, if the umbrella company does not have the cash, it cannot pay

and may itself be forced to fold if it loses all its working capital on deposit.

Best practice for umbrella company contractors is to automatically question an umbrella solutions provider that does not pay them within a few days of submitting timesheets, or won't pay its contractors until they are paid by the agency or client.

Umbrella company contractors should never allow large sums owing to them to build up, because: a) their umbrella company could already be in trouble; and b) their money would at risk if the umbrella's bank failed.

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