

Contractor banking – running a business bank account

Contractors who have successfully applied for and opened a business bank account should next put into place best practice systems and processes so they run the account both legally and efficiently.

Technically, funds in a business bank account belong to the company, and not the contractor. The company is a separate legal entity, governed by company and tax laws that must be respected.

The movement of money via banking processes and the resulting banking records form a vital part of the statutory information that must be provided to compile a **contractor's limited company accounts**, corporate tax returns and personal tax returns. So accurate records that are easy to access and process are a 'must'.

How money moves in and out of a business bank account – the basics

Once opened, a business bank account is where the **contractor limited company's** cash is held on behalf of the company by the bank, in the same way that a contractor's personal money is held in their personal bank account.

A positive balance is generated when the contractor limited company **invoices** and receives money from, say, an agency or client, or if the contractor deposits cash into the business account from their personal account to cover **start-up business expenses**.

Depending on the type of account, the contractor will be issued with a 'paying-in' book and a cheque book for their business account. This enables cheques from agencies or clients to be paid-in at a bank branch or by post, and the contractor can write cheques on behalf of the limited company to pay bills, such as telephone or broadband bills, or corporation tax and VAT to HMRC. Company cheques can also be used to pay money into a contractor's personal bank account when the company is paying the contractor their **expenses, salary and dividends**.

Modern banking is electronic and managed online

Paying-in books and cheques are becoming increasingly outdated, and some business bank accounts are completely online and largely automated, with no cheque books or paying-in books issued.

More often, money is transferred into the business bank account direct from the client or agency's account, using processes known as a bank transfer, or often called **'BACS'** (Banking Automated Credit System). BACS is one of the banking systems underpinning how money is moved around.

Contractors may pay suppliers by bank transfer or by using a company credit or debit card. They can also pay themselves by transferring money directly from the business account into their personal account using bank transfers.

Online business banking

Although contractors can request a bank transfer by completing a form in a high street bank branch, or over the phone, online business banking facilities offered by all the banks mean that contractors can manage their money securely from their PC.

Once logged in, assuming a contractor has sufficient funds in the account, they can transfer money to suppliers, professional advisers, HMRC or their personal account at the click of a mouse, just as they would with personal online banking.

It is possible to create standing orders and complete all the normal banking transactions online. The only physical aspect of a modern business bank account is the credit or debit card used by the contractor to pay expenses or to withdraw cash from a cash machine (ATM).

Business banking record keeping

Bank statements are the prime source of any business's financial information and underpin company accounts and tax returns. Business bank account statements are essential tools used by accountants to complete accounts and tax returns, and by HMRC inspectors when conducting an investigation.

Therefore keeping completely accurate business banking records is essential. Failure to keep accurate records, which then results in incorrect company accounts and tax returns could, in the very worst cases, land a contractor in jail for fraud and tax evasion.

Most business bank accounts still send monthly bank statements in hard copy to the contractor's business address. And when contractors move money around by using cheques and paying-in books, there are physical records for an accountant, or HMRC, to check and match against the contractor business's bookkeeping records.

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Keep electronic records

But when moving money around electronically, and if the account only uses online statements and billing, contractors should also ensure online transfers also have notes in the accounting records that relate to each payment, thus providing a clear 'audit trail'.

For example, at the end of each contracting month a contractor can make three payments from the business account into their personal account – 'expenses', 'salary' and 'dividend' payments.

Any outgoing bill payments will correspond to invoices from suppliers, such as accountancy fees, phone bills and so on. Incoming payments will correspond to invoices issued to, and paid by, agencies and clients.

Business banking is an essential part of running a contracting business. As long as contractors put processes in place to record and explain their financial transactions, they will be able to provide their accountants, and if required tax inspectors, with the information required to keep their contractor limited company's financial affairs compliant.

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