

Opening a Business Bank Account

Business Information Factsheet

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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. There are many different types of business bank accounts available, each with different benefits and costs.

Using a business bank account makes it possible to keep business income and expenses separate from personal finances. It also makes it easier to monitor business transactions, keep accurate accounts and pay the correct amount of tax. In addition, most banks will not provide a business loan if they only have personal account information.

This factsheet describes the different types of business bank accounts that are available and the associated costs. It also provides information to help compare different accounts and goes through the application process.

Different types of business bank accounts

There are many different business bank accounts available and they can be divided into several broad categories:

- Current accounts, or cheque accounts, for day-to-day banking transactions.
- Term-deposit savings accounts for depositing cash that doesn't have to be immediately accessible.
- Easy-access savings accounts for depositing cash that is not required for day-to-day transactions but can be accessed at short notice if required.
- Merchant accounts for accepting credit and debit card payments.

Some banks may also provide specialised accounts for certain types of business. For example, foreign currency accounts are available for businesses that trade overseas, and many banks provide 'community' accounts for social enterprises. Several banks offer Islamic bank accounts, which are compliant with Sharia law and suitable for Muslim business owners.

Current accounts

A business current account offers a means to deposit money, make payments by debit card, bank transfer or cheque, set up regular payments and transfer money to other accounts. It typically also

provides an overdraft facility.

One of the most important aspects to consider when opening a business current account is how it will be operated and accessed. Typically, business accounts can be operated in person, at the branch, by phone, online or via an app. However, some accounts are online-only and have no physical branches. Although cheques can be scanned and deposited into an online-only account via an app, businesses that need to deposit cash regularly will usually require in-person access to a bank branch with counter service.

The costs associated with business current bank accounts vary between different banks, but typically include transaction charges for payments made in or out, which vary according to how the payments are made.

For cash payments, banks usually charge a percentage of the amount deposited or withdrawn. Cheques and automated payments (such as direct debits, standing orders, online banking and ATM withdrawals) are typically charged at a flat rate.

Many banks also charge a fixed monthly account fee. However, in an effort to attract new customers, some offer free business banking for a limited period and/or for businesses with a specified minimum average balance in their account.

Savings accounts

Savings accounts for a business (also known as business reserve accounts) can be used to deposit surplus cash and receive a slightly higher rate of interest than from a current account.

Banks typically offer a choice between easy-access savings accounts (which allow funds to be withdrawn immediately or after a short notice period) and term-deposit savings accounts, where funds are locked away for a set period of time and a higher rate of interest is paid. A financial penalty is often applied if funds are withdrawn during the fixed-term period.

Many business savings accounts are free for day-to-day banking, but it is worth checking before signing up for an account. Some accounts have minimum balances and, in order to open one, a minimum sum must be deposited into the account. Other accounts offer varying interest rates, with higher balances attracting higher interest rates, and some have a maximum balance.

Before signing up, it is important to check that the savings will be protected by the Financial Services Compensation Scheme (FSCS), which has a protection checker on its website (www.fscs.org.uk/check/check-your-money-is-protected). The FSCS protects savings of up to £85,000 per customer.

Merchant accounts

A merchant account is a facility provided by a bank or payment service provider that enables a business to take credit or debit card payments from customers.

For many small businesses and start-ups, a merchant account is not necessary, since they can accept card and online payments by using a payment service such as PayPal, Square, SumUp and Stripe.

However, businesses that accept a relatively large volume of card and online payments typically require a merchant account, since it is not usually cost-effective for them to use a payment service.

Merchant account charges can vary widely between providers. Typical merchant bank account charges include a monthly standing charge and a card-processing fee for each transaction. Some providers charge additional fees when card payments fail due to lack of funds.

How to open a business bank account

The application process for most business bank accounts is relatively straightforward. Banks typically require information including the following:

- Proof of the identity and address of the business owner, and of the business itself, if different.
- Business verification documents, such as an invoice from a supplier, or correspondence with HMRC.
- Details of the business, such as the activities it carries out, its estimated turnover and its sources of income.
- Information about the credit history of the business and/or its owners.
- List of account signatories.

If the business is a limited company, the bank may also require proof of the identity and address of company directors and 'persons with significant control', as well as details of the company's registration with Companies House.

Some banks require more detailed information about the business and may ask to see a formal business plan.

Useful resources

'Get Ready to Open a Business Current Account'

UK Finance

<https://business-account-opening-guide.ukfinance.org.uk>

'Making the Most of Your Business Bank Account'

British Business Bank

www.british-business-bank.co.uk/business-guidance/guidance-articles/finance/making-the-most-of-your-business-bank-account

The Current Account Switch Service helps small businesses, charities and trusts switch to the current account that best meets their needs.

www.currentaccountswitch.co.uk/why-switch/#whySwitchBusiness

Related factsheets

BIF004 Writing a Business Plan

BIF040 Sources of Finance for Starting a Business

BIF495 Sources of Business Start-Up Support

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