



Accountancy Co-operative

the Approachable & Friendly accountancy service

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Why a limited company needs its own bank account

It is not a specific legal requirement that a company opens and runs a bank account in its own name, and where a new company has been formed to take over an existing sole trader business, it can be tempting to continue to use the business bank account that has already been set up for that business.

However, we strongly recommend that every company opens its own separate bank account and uses it to process all the company's transactions, for the following reasons.

1. Often when an existing business is transferred to a company, the formalities of the change are handled less than perfectly. For example, there may be no formal documentation of the transfer of assets, the sales invoices raised by the company may not make it clear that the sale is now being made by a limited company, and suppliers may be slow to update the details that appear on their invoices. This carries a risk of HMRC arguing that the business has not been transferred, with a view to taxing the business at a higher rate. Having a company bank account being correctly set up and used can act as a counter-argument.
2. Where a person is holding money on behalf of the company, he/she is borrowing money from that company. This is likely to be the case where a person's own bank account is being used as a company bank account and the account is in credit, even if the only transactions on the account are company ones. Borrowing money from the company can be illegal under the Companies Act 2006. It can also lead to additional tax liabilities in the form of Section 455 tax, and tax and National Insurance on beneficial employee loans.
3. If the business is unfortunate enough to be subject to a tax investigation, all of its records and bank accounts will be reviewed. Once HMRC discover that a personal bank account is being used for company transactions, they may extend the scope of their investigation to the director as well.
4. If bank interest and charges have been paid on the account, HMRC may not allow tax relief on them on the grounds that they have not been incurred in the company's name.
5. Where company funds are held in a private bank account, the distinction between the company and its owner is blurred. This may cause difficulties if the company becomes insolvent, and the owner wishes to rely on the principle of limited liability to avoid being held personally liable for any business debts. This would be particularly relevant with a bank overdraft, if there were no personal guarantee in place.

A properly set up company bank account should be an account held by the limited company in its own name, which in most cases means that "Limited" or "Ltd" should appear in the account name. It is not possible to "convert" a sole trader business account to a company account; a new account with a new account number is needed.



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