

Self Employment Bank Accounts

When a new client sets up as self employed, there are a number of key considerations with regards to the Bank Account.

Often the client will start self employment and use their existing personal accounts.

Where ever possible it is advisable to have a separate account for the self employment.

Many banks and building societies provide free banking for new businesses, often over long periods of time.

The advantages of splitting the bank accounts are: -

- Income and expenditure are readily identified and accounted for.
- There is a clear separation of personal monies.
- All Bank charges and interest are chargeable to the business.

The disadvantages are: -

- The bank charges for businesses are often very high, versus free banking for personal customers.
- It is difficult to separate personal monies from the business earnings and tax may end up being paid on personal money that is counted as income.
- Not all expenses may be captured in the accounts.
- The Bank charges and interest incurred may not be chargeable, or only at a reduced percentage.

It is virtually impossible to do an accurate Bank Reconciliation when a client has a mixed bank account, unless the client has kept detailed records and accounted for all bank entries.

In these cases the client must be asked to identify when bank entries are not income but personal banking. These entries must be clearly highlighted with an explanation of what they are against each entry. The Sales Invoices must be checked against bank entries and debtors carried forward where applicable.

The Inland Revenue can look back 6 years, and it can become increasingly hard to remember what was income and what was not.