

STARTING UP

Separating Personal and Business Money

Why a clear line between your money and the business's money matters, and how to handle drawings, salary, loans and expenses properly.

FOR: SOLE TRADERS AND COMPANY DIRECTORS · NEW TO BUSINESS

Why the line matters

When money moves freely between your personal account and the business, three things go wrong. Your records become unreliable, because nobody can tell what a payment was for. You may pay the wrong tax. And if the business gets into trouble, the lack of separation can cause real personal exposure. A clear line costs almost nothing and avoids all of it.

For sole traders

A sole trader and the business are the same legal person, so there is no legal wall between your money and the business's. That is exactly why a separate business bank account matters: it is the wall you build yourself. Pay business income in, pay business costs out, and take drawings from it to your personal account on a regular basis. The drawings are not an expense. You are taxed on the profit whether you draw it or leave it in the business, so set tax aside too.

For company directors

A limited company is a separate legal person. Its bank balance is the company's, not yours, and you may take money out only in permitted ways:

- **Salary**, through payroll.
- **Dividends**, which can be paid only out of profits the company has available, and with the proper paperwork.
- **Repayment of money you lent to the company.**
- **Expenses you paid personally**, reimbursed against receipts.

Anything else is a loan from the company to you.

What is a director's loan account?

It is the running balance between you and the company. If you have put money in, the company owes you. If you have taken out more than you were entitled to, you owe the company. An overdrawn balance can have tax consequences, including an extra tax charge on the company if it is still outstanding nine months after the year-end, and a possible tax charge for you on the benefit of the loan. Your accountant will keep the account for you, but you can keep it small by taking regular, planned pay.

Who this is for

- Sole traders using one account for everything
- New company directors
- Family businesses where money moves freely

Key points

- Open a separate business bank account on day one.
- Take regular pay, not random withdrawals.
- Sole trader drawings are not a business expense.
- A company's money is not your money.
- Keep the director's loan account positive, or repay it promptly.

Everyday habits

- **Pay yourself on a schedule.** A fixed amount each month is easier to budget for than ad hoc transfers, and it keeps the records clean.
- **Do not pay personal bills from the business account.** If you do by mistake, record it at once as drawings or as a loan.
- **Reimburse yourself properly.** If you pay a business cost personally, keep the receipt and claim it back, instead of leaving it undocumented.
- **Use separate cards.** A business card for business costs makes the monthly reconciliation quicker.
- **Do not lend the company's money to yourself informally.** Ask first.

Mixed costs

Some costs are part personal and part business: a phone, a car, a home office, internet. You can only claim the business part, and HMRC expects you to be able to show how you worked it out. A simple method, applied consistently and recorded, is better than a large guess. Ask your accountant about the right method for each cost, particularly for use of home and for vehicles.

When the business needs your personal money

Putting your own money into the business is perfectly acceptable. If it is a company, record it as a loan or as new shares, and write down what you agreed about repayment. If you are a sole trader, record it as capital introduced. Either way, never leave it as an unexplained transfer.

When things go wrong

If you find that you have mixed things up, do not hide it. Tell your accountant. Correcting the records at once is far better than having them discovered in a tax enquiry or when you want to sell the business or raise money.

Related guides

If this is useful, you may also want:

- [Paying yourself](#)
- [Bookkeeping basics](#)
- [Expenses, receipts and mileage](#)

A tidy month

- Business income paid into the business account
- Business costs paid from the business account
- Fixed pay moved to your personal account
- Personal costs paid personally
- Mixed costs recorded with a note
- Tax set-aside moved to savings

How King Street can help

0161 835 2080
client@mtmlp.co.uk

We set up your bank feeds and accounting software to keep business and personal money apart, advise on pay, dividends and director's loan accounts, and put right any past mix-ups before they become tax problems. We also prepare regular director's loan statements for company clients.

Manchester: 3rd Floor, 82 King Street, M2 4WQ · Wilmslow: Cresta House, 42 Water Lane, SK9 5AL