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Getting Started with Business Banking

Introduction

For an entrepreneur or small business owner, where you keep your capital is almost as important as what you do with it. Small businesses are burdened with multiple decisions each day. From finding office space or a storefront to hiring staff and acquiring customers, you'll want to make sure your finances are doing what they need to do, and in the right place.

Deciding where to open a bank account, how to direct cash flow, and how to keep your funds secure is an inundating process. We will discuss essential topics for managing small business banking, such as:

- Why it's important to separate business and personal expenses
- What to look for when you're choosing a new business account
- Effective methods for managing cash flow
- How to keep your digital business account secure
- How to protect yourself against payment fraud

Axos Bank has served customers for nearly two decades, and we want to help you understand and navigate your choices.

Why it's vitally important to separate business and personal expenses

When you're just starting to grow your small business, you may not think you need a designated bank account to manage all of your costs, especially if your company is slow to develop. Assuming you can combine your personal and professional expenses is a common misconception, however. It would be best if you remembered that your business is its own separate unit; it exists independent of you and your private life. This includes your personal finances. There are many reasons to open a designated business bank account. Let's review the key ones:

Tax benefits

One of the main motives for separating business and personal expenses is so that you can quickly identify business expenses when it's time to pay taxes. If your personal and business expenses are combined, it will take much more time and effort to recognize and record costs specific to your company. You could miss out on opportunities to take advantage of tax deductions and claim business expenses.

Additionally, in the case that the IRS conducts an audit on your finances, you will only have to account for either your personal or business expenses. If you operate with combined personal and business expenses, you will likely face an audit of your expenses in their entirety.

Asset protection

Keeping your personal and business banking separate protects your private assets in case your company is sued, or creditors require repayment. If you combine finances, you run the risk of losing your home, personal possessions, and personal savings if an issue were to arise and another party seeks legal action against you.

Credibility

Especially as a new business or entrepreneur, you want to build legitimacy with your customers, clients, and vendors. If you write a check from a personal bank account, your business won't seem as credible as if you wrote the check from a business account. Similarly, if you have vendors or other stakeholders write your company a check to your personal account, your credibility also suffers. Opening a separate business account will increase your authority and trustworthiness as an established business.

Build business credit

It's essential to establish and begin to build credit for your business as soon as possible. As a new business or entrepreneur, you likely won't have the buying power needed to grow and expand properly. You will also need an established business credit history to qualify for large-sum loans that you may need to quickly grow your business.

Also, establishing a business credit history that is separate from your personal credit history will protect each entity in the case that either you or your business experiences financial hardship.

What to look for when you're choosing a new business account

We've established the necessity of separating your business account from your personal account, but with all of the options out there, how do you decide what bank or account is right for your company?

First, it's important to figure out your business needs, and look for an account that will fit those requirements. Conduct thorough research to learn and understand the differences between various accounts. Spending time researching your different options will help you keep more of your money and minimize any potential fees for which you're responsible.

Business accounts, like personal checking or savings accounts, vary in what they offer. This includes minimum balance requirements, monthly maintenance fees, transaction limits, deposit limits, and other additional products and services.

Types of checking accounts

Typically banks offer two types of checking accounts: a basic checking account and an interest checking account. Basic Checking accounts are what they sound like. These accounts provide straightforward business accounts and are great for businesses with low-to-medium banking activity like entrepreneurs, startups, and small businesses. Interest checking accounts are for companies that are more established and experience a higher amount of banking activity. Interest earned from these accounts can help offset any fees incurred from high-volume account activity.

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Minimum balance requirements and monthly maintenance fees

Most, if not all, business accounts require the account owner to maintain a minimum balance at all times. Often this minimum balance is between $1,500 and $5,000, but it can be as low as $0 and as high as $15,000 or more. This is where shopping around for accounts can help you save money. Look for a bank account with a minimum balance that is lower than your monthly revenue to avoid potential fees if you don't always meet the minimum balance.

Many accounts also have monthly maintenance fees, which average between $10 and $30. Some accounts charger a higher monthly maintenance fee, while others don't charge a fee at all.

Transaction limits

As you decide on a business bank account, consider the average number of transactions you will conduct on a daily or monthly basis. Most banks allow up to 200 free transactions, including bank deposits, ATM activity, electronic transfers, account withdrawals, and check cashing. Once you exceed 200 transactions of any type, your bank begins to charge you per transaction. These charges are usually under $0.50, but can quickly accumulate if you don't correctly anticipate the number of transactions you will need to complete. If your business requires a high transaction count, consider opting for a bank account with modest transaction fees, or no fees at all.

Initial deposit minimums and cash deposit limits

Your initial deposit and cash deposit limits are another consideration when choosing the right bank account for your business.

Some banks require that you deposit a certain amount when you open the account. This initial deposit can be up to $1,000 or more. If you know that your new business needs a separate business bank account, but perhaps you've yet to generate much income, try choosing a bank account with a low or $0 minimum deposit. That way, you have an established business account that is unique to your personal account, but you don't have to start depositing large sums of money into it just yet.

On the other hand, if you're ready to open an account and you have the capital to cover a high-value initial deposit, it can be to your advantage to choose accounts with high minimum deposits, as they usually allow for higher daily and monthly deposits and have other features that accommodate high-volume transactions.

Banks also have daily and monthly cash and check deposit limits. It's important to pay attention to these limits as you're shopping around for a bank account. Some of these deposit limits can be as low as $3,000 per month. If you find yourself with an account with a smaller deposit limit than what you need, you run the risk of having to hold on to funds until the next business day or month when your minimum resets. Cash- or check-heavy operations need to keep this in mind.

Additional Perks

Lastly, you may want to consider any extra perks included when choosing a business account. Many accounts offer online bill pay, merchant services, payroll services, and processing, foreign currency exchange, long-term loans, treasury management, equipment financing, and more. Always ask your bank what else they can do to accommodate your business needs. There may be additional perks that are not as obvious, like getting better deals on travel, office supplies, and employee insurance.

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Managing Cash Flow

Knowing exactly when and where your money comes from, and where it's going, is the essence of controlling cash flow. As an entrepreneur or small business owner, you will need to play a critical role in directing incoming and outgoing finances to maximize the profitability of your business.

Creating a budget, capital expenses, and operational expenses

Creating a budget may seem like you're setting limits on your business, but in reality, creating a budget ensures that every hard-earned dollar does precisely what you want it to do.

Before you create your budget, you need to understand the differences between capital expenses (CapEx) and operational expenses (OpEx). It's important to be able to distinguish between the two types of expenses because the government taxes them differently, and business owners who don't know the difference can end up paying more than they anticipated come tax season.

Capital expenses are typically one-time purchases of resources that will provide benefits over an extended period. These include office furniture, company vehicles, computer equipment, software, and buildings.

Operational expenses are recurring expenses that support day-to-day business operations. These sorts of costs include rent, office supplies, payroll, transportation, marketing equipment, and building repairs.

It can be difficult to determine whether an expense is CapEx or OpEx, so consider whether it is a one-time expense, or if it's a recurring expense.

Establish long-term business goals

Outlining long-term business goals will set the framework for every decision you make for your business moving forward. These goals will help you identify your operational expenses, and you'll have a clearer vision of which capital expenses you can skip, and which are non-negotiable.

SMART goals

SMART goals are Specific, Measurable, Achievable, Relevant, and Time-bound. These types of goals are easily trackable, so you know if your business is progressing as planned and if you need to adjust your objectives.

You can also categorize your goals for a well-rounded business plan. Small business expert and Purdue University professor, Maria Marshall[1] recommends aligning your goals with four categories:

- **Profit:** How you plan to increase profits for your business by a specific date.
- **Growth:** How you plan to expand your business by a specific date.
- **Service:** How you plan to improve customer satisfaction or acquisition by a specific date
- **Social:** How you prepare for your business to give back to its community

Goals are most effective when they're shared with and by your team. Your goals will help you and your managers prioritize and approve or deny various expenses, while working toward a positive company culture.

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Create a Process for Approving Expenses

Each capital expense decision should go through a thorough review process, no matter your business size. The way you prioritize your capital expenses will have a direct influence on your profitability and return on investments. Your method for approving or rejecting expenditures should include:

A cost-benefit analysis (CBA). A CBA helps you to objectively approach business decisions by:

- **Clearly identifying the decision.** Make sure that you and your team are on the same page about the expense decision. Can you afford new office chairs? Is there room to hire another employee? Should you send your sales staff to a new conference?

If the decision doesn't seem cut and dry, it's time to reassess the objective.

- **Brainstorm all costs and benefits:** The cost of any capital expense decision is not as simple as the sticker price of the goods or service. Consider indirect costs like the cost to train employees if you purchase new software, the costs of an in-house IT technician, and the costs of employee's time lost to learning a new program.

Then, brainstorm all of the potential benefits to the capital expense with the same scrutiny. Will this expense streamline clunky processes? Will it save time and breakdown silos? Will this expense generate more revenue?

- **Assign monetary values:** This can be one of the most challenging aspects of a cost-benefit analysis. Assigning a monetary value to intangible items like customer satisfaction or employee training hours may seem impossible at times, but it's a crucial step to weighing the cost and benefits of a purchase decision. Reference industry reports and your other business partners to determine how your business values these items.
- **Compare the benefits and costs:** The last step is to compare the costs of a given expense to the benefits of its outcome. Don't forget to consider that benefits can be long-term as well as short-term. For example, a new office air conditioning unit may cost $4,000.00 up front, but could yield $500.00 in energy savings over a single year.

Leverage software

Accounting software can help track capital and operational expenses and project your future cash flow. Some programs process payroll and allow you to integrate your bank account to eliminate extra steps and get your employees paid sooner.

Merchant services that secure digital consumer transactions help facilitate the purchasing of goods and add a layer of legitimacy to your business practices.

Software can help save time and resources that you can spend by reinvesting in your business.

Reinvesting profits back into your business

When you have gains that you want to reinvest back into your business, you might decide to either open a savings account or money market account.

Savings accounts earn interest on your account's balance to help increase your overall savings. Many savings accounts have minimum balances and maintenance fees similar to checking accounts, and often, they limit the number of times you can withdraw from your account to six transactions.

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Money Market Accounts are like a mix between checking and savings accounts. You earn interest on your account balance, and at a much higher rate than a savings account. However, you can withdraw funds from your money market account like a checking account. The only catch is that money market accounts also limit the number of transactions per statement period and typically higher fees associated with exceeding the transaction limit.

Keeping your digital business account secure

As the number of businesses that house the entirety of their financial operations in the digital realm increases, so do the instances of digital crime. It can be tempting to go "off the grid" to reduce the number of business transactions that take place online, but your business would inevitably run into issues trying to form business partnerships, especially over great distances.

The best defense against a financial cyber-attack is layered security. This means using strong passwords and regularly updating your software.

Creating strong passwords may seem like common knowledge, but business owners continuously fall victim to digital scams that could have been avoided if they had used a stronger password. One of the top three most common passwords is **password.**

The strongest passwords are at least 12 characters long and consist of random letters, numbers, uppercase and lowercase letters, and special symbols.

If you use plain random words, stay away from common phrases and famous quotes that hackers could easily guess.

Lastly, don't reuse passwords more than once. Even the most-secured passwords can be made vulnerable if used over and over again. Even the best passwords can be compromised. It's better to have to remember different passwords for your various accounts than to have a single password that will compromise all of your sensitive data if discovered.

Protecting yourself against payment fraud

Payment fraud is an instance of fraudulent or unauthorized transactions, false requests for a refund, returned or bounced checks, or lost and stolen merchandise. Proactive methods to protect yourself from payment fraud include:

Monitoring your account activity. Check incoming and outgoing payments daily to spot questionable transactions as soon as they arise and contact your bank immediately.

Control access. Be selective in which employees have access to your bank accounts, and who has a company credit card.

Educate employees. Take the time to inform your employees about cybersecurity and email/phishing scams. There are resources online to help, or you can bring in outside experts to teach your staff.

Secure your company computers. Install anti-virus software on all company computers. You can set the programs to run scans at regular intervals and scan incoming files, like email attachments, for viruses or suspicious materials before you open them. Keeping anti-virus software up-to-date is important because hackers are always developing codes that override the latest programs. If you are running outdated anti-virus software, it is much easier for a hacker to get past your firewall.

Make an Emergency Plan. Create a payment fraud plan so you can act swiftly in case there is a breach. These plans include backup "clean computers," procedures for quickly erasing sensitive data, and having emergency savings accounts to cover you in case your finances are stolen or frozen.

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Conclusion

As you find and select a business bank account that fits your specific needs, keep in mind the importance of separating your personal account from your business account to streamline financial accounting, build legitimacy for your business, and avoid potential issues come tax season.

Look for a bank account with minimum deposits and balances that work with the cash-flow of your business model and keep an eye out for potential perks that would be an asset to your operations.

Axos Bank is a trusted partner to many small business owners. Axos strives to provide practical and convenient solutions for your business banking needs.

The right banking partner can give you tools to manage cash flow, submit employee payroll, and even increase your account balances by offering competitive interest rates.

Understand that no bank account is one-size-fits-all. Whatever your business needs, the key is to shop around and learn as much as you can about each institution's philosophy so you can make an informed decision when opening an account.

Footnotes

1. Vanden Bos, Peter, "How to Set Business Goals," Inc., June 29, 2010, https://www.inc.com/guides/2010/06/setting-business-goals.html