



**GUIDE**

# Personal and Commercial Accounts must be conserved separately

# PERSONAL AND COMMERCIAL ACCOUNTS MUST BE CONSERVED SEPARATELY

Many business owners think that their effort is a "mine/mine" effort. Therefore, they choose not to keep separate accounts. Some believe it is a way to save money by processing your business transactions through your personal bank accounts to reduce expenses and bank charges.

However, it is a complicated state of mind as it can bleed personal and business finances. Also, it can lead to uncomfortable and unnecessary investigations by the Treasury Department.

In this document, we share our thoughts regarding this situation, the problems that could arise and how to avoid them.

## SITUATION

The money from your business is not there to take hold of whenever you need some cash.

The money that goes into a company is meant to be used strictly for commercial purposes. This means that it can only be used to pay for supplies, commercial rentals or public services, payroll and everything directly related to the operation of the company.

That money will not be used to pay off your mortgage, groceries, anything for your children, personal vacations or anything else that has nothing to do with the business.

If you work from home, you can claim a reasonable portion of certain household expenses, such as by telephone, electricity, Internet or car-related disbursements, and pay them directly from the business account.

Sometimes, however, it is necessary to take money out of business to cover some personal expenses.

## **Consider some of the situations or problems that may arise when mixing your accounts:**

### **1. Hobby business – Classification**

According to the Treasury Department and the Internal Revenue Service, only companies can deduct business expenses. And, there are specific guidelines to determine if an entity is a business or a hobby. If the payments incurred by managing your company goes through your personal bank account, you may be giving the Treasury Department and the Internal Revenue Service the impression that your business is a hobby. And, if audited, you will have difficulty convincing the government that you are operating a business.

## **2. Time of Returns**

When the time comes to declare the income and expenses related to your business, all your personal transactions should be separated from your business transactions.

They will be nightmares that consume a lot of time if you have to go through each transaction and receive (up to a \$ 10 taxi ride) to separate the business from the staff.

## **3. Limited audit trail**

The government does not require you to have a specific recordkeeping method or a separate bank account for that matter. However, it does need that whatever way you use, all records are accurate, complete, permanent and show a clear record of income and deductions. And you will have to provide an independent commercial declaration and a document to produce a clear audit trail.

## **4. Lost deductions**

By mixing your company's banking with your personal banking, you create a confusing mix of transactions in your bank statement. The worst part is that it is easy to ignore the deductions to which you may be entitled. Whether you prepare your tax return or use an accountant, a messy record will cost you time, money and, possibly, unrealized deductions.

## **Recommendations**

1. Keep a separate bank account for your business
2. If you need access to money for personal reasons, there are three acceptable methods to do so:
  - a. Put yourself a salary.
  - b. Write a check for you in advance
  - c. Schedule regular withdrawals instead of random withdrawals

Establishing yourself with regular payments, even if they are not real "salary" checks, helps not only to keep the business as legitimate but also allows people to have a better budget because it simulates a regular salary as before undertaking a business venture.

## **summarizing**

There are severe consequences for not following the proper protocols when it comes to commercial funds. All this can be avoided very easily.

If you do things right, you'll never have to worry.