



Business Credit vs. Personal Credit

The separation between your personal credit and your business credit can be tricky for small businesses, especially when you ARE the business. Experts recommend having a clear distinction between your personal and business finances as far as that's possible. Building business credit aside from your personal credit is part of that equation.

To some extent, your business and personal credit may remain linked, no matter how hard you work to keep them separate. For example, if you're applying for financing and don't have a long enough business history to qualify, you may need to add your personal guarantee into the mix.

What's the Difference Between Business and Personal Credit?

Your personal credit is connected to you by your Social Security number. Your business credit history is linked to you by your Employer Identification Number (EIN) or Tax ID Number, which is how the government recognizes your business for tax purposes. You can apply for an EIN online and receive it almost instantly. Technically, if you're a sole proprietor, you don't *need* an EIN for taxes, but to establish business credit, you will.

Your personal credit history is curated by the three major credit bureaus, Equifax, Experian, and Transunion, and you have one profile with each. Experian and Equifax also have business credit reporting services. Your business profile is separate from your personal credit history.

There are credit reporting services that only deal with businesses, with Dun & Bradstreet being the largest and best known. If you have more than one business, you can have a separate report for each, if it has its own EIN.

Personal vs. Business Credit Scores

Your personal credit is frequently summarized into a single number that helps creditors see where you stand at a glance. FICO is the most commonly used method of scoring personal credit. There is no equivalent for businesses; each commercial credit bureau scores and reports its own way.

The most important factors for scoring businesses are usually how you pay your bills, how much debt you carry, and what type of industry you're in. Business credit scores have fewer variables than FICO scores, and it is easier to improve the score for a business than it is for an individual.

On the downside, there are fewer legal protections for business credit. Consumer credit laws allow you to challenge anything on your report and have incorrect negative entries removed. There are no such laws when it comes to commercial credit, which means if there are issues with your business credit report, you could have a much tougher time getting those dealt with. You can challenge discrepancies with the agency that has them listed, but they don't have to respond.

Why Do I Need Business Credit?

In many cases, you won't be able to complete business transactions if your business doesn't have credit. Lenders will use a business's credit history when figuring out whether to loan the business money. You'll also need credit in order to get business insurance. In many instances, you won't be able to buy goods and services for your business without access to credit.

Why can't you use your personal credit for all of that? In some cases, you can but you really shouldn't. The IRS has strict rules about mixing personal and business expenses. Using personal checks or a personal credit card makes your bookkeeping much tougher. Most people also believe your business looks a lot more professional when you pay for business expenses with dedicated business funds.

Perhaps most importantly, if you use personal credit to run your business, you put yourself and your family at risk if your business fails or experiences money trouble. Creditors will then come after YOU, as you will be personally liable for the expenses incurred by the business.

5 Ways to Establish Business Credit

The easiest way to establish business credit is to keep all the finances separate from the get-go. You can also:

- 1. Open a separate business checking account.** Use your business checking account to pay the business's bills and employees, including yourself. If you're incorporated, you *must* do this, but it's good advice for ALL businesses. Use the EIN we discussed above to identify the account, and use a separate business telephone number, even if it's for a mobile phone.
- 2. Apply for and use a business credit card.** Pay business expenses with this card, not with your own personal card. This not only makes tracking expenses much easier it helps you build credit for the business as you use and pay off the card. If you can't qualify for a business card immediately, start with a secured card, which is backed by money you put in account to guarantee you'll pay.
- 3. Ask for credit terms from your vendors.** Even if the credit limit is small to start, and the time frame is relatively short, it will help. Pay the bills on time, and after a few transactions, ask to have the limit and/or term increased. Success with even one or two vendors will give you positive credit references to build on with other business and for possible loans in the future.
- 4. Register with the business credit bureaus** like Experian and Equifax and open a business credit file. Apply for a DUNS number from Dun & Bradstreet.

5. Select your business structure carefully. The best way to separate your business and personal financial lives is to do it legally. Instead of a sole proprietorship, take yourself out of the mix and form a corporation or LLC.

When Personal and Business Credit Mix

There are times your personal and business credit will affect each other, especially if you're a sole proprietor. In most cases, your personal credit will impact your business far more than the other way around.

Some business credit card applications will require your Social Security number. A landlord may want to run a personal credit check before leasing you space. A small business loan may need a personal guarantee. In fact, under some circumstances, the Fair Credit Reporting Act does allow lenders to review the personal credit history of sole proprietors for business lending purposes.

If you can avoid giving your Social Security number (and hence, access to your personal credit history) for business purposes and will help keep them separate. Credit bureaus don't distinguish between business and personal inquiries, and too many can have a negative impact on your credit score.

For small businesses, your personal and business credit scores can be very closely linked, so it's smart and important to protect both.