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# Separate Your Personal And Business Expenses – With One Exception

As a business owner, a piece of advice you'll hear again and again from financial experts is to separate your personal and business expenses and finances. Dedicated business checking accounts and credit cards make record keeping easier and can be a life-saver when filing your taxes.

Dedicated business accounts also go a long way in proving that you are operating a business and not indulging in a hobby. There are many tax deductions that small business owners can take, but only if they can prove their personal business is legitimate. Additionally, when you're deducting business losses, the IRS will look to see if you have accounts in the name of your business.

#### 4 Simple Steps to Separate Personal and Business Expenses

1. Apply for an Employer ID Number (EIN). This is the easiest way to make your business official. You'll need an EIN if you plan to hire employees and declare as a corporation, LLC, or partnership.
2. Ideally, you should open a checking account and apply for a credit card with your business name listed. One advantage of this strategy is that you may have the ability to deduct the interest on a business credit card as a business expense. If you are not able to obtain a business account, identify a personal checking account or credit card dedicated to business purchases only.
3. When shopping for both business and personal items at the same location, ring up your transactions separately so you can keep a unique receipt that reflects business purchases only.
4. Declare your business as a Limited Liability Corporation (LLC). This designation protects your personal finances if your business goes into debt or is ever sued.

When you operate your small business as a sole proprietorship, as the owner you are personally responsible for repaying any business debts.

#### The Exception to the Rule: Using a Personal Loan to Grow Your Business

But how can you separate your personal and business expenses when you're a new business owner that's just starting out? Trying to establish your business with limited funds can be difficult, but obtaining a business loan when you're not-yet-established can be equally as tough. This may be the one area of your business where you need to dip into your personal finances.

##### Acquiring a Business Loan

When you apply for a business loan, a lender will evaluate your business's performance to determine loan approval, which can be tricky when you're in the early stages. In fact, many lenders require that you must be in business for one to two years to apply for a business loan.

Business loans come with strict requirements concerning how the money can be used and you may be required to offer up collateral. This may be the reason that only 34% of small businesses received funding through their bank, compared to 75% of larger businesses.

##### When to Use a Business Loan

There are several scenarios where applying for a business loan may be the best course of action:

- If you meet the criteria for a Small Business Administration (SBA) Loan. These are long-term, low-interest loans, partially backed by the government.

*(Continued on page 50)*



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## WHEN TO USE A BUSINESS LOAN

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- When interest rates on personal loans aren't that much lower than business loans. Why put your personal credit at risk when there is little reward?
- If you have the means to repay your loan quickly. Business loans often carry higher interest rates, so paying off your loan quickly can save you thousands of dollars in interest over the life of the loan.
- Use a personal loan for smaller loan amounts (less than \$25,000). Although the SBA guarantees that small business loans be made available for as little as \$5,000, the acceptance requirements are very tight and your credit history must be spotless.

The **Business Services Division at Diamond Credit Union** offers the tools and resources to help you successfully separate your personal and business expenses.

Diamond has 4 free-standing branches – located in Boyertown, Exeter, Pottstown, Wyomissing, and coming soon to Royersford – which has positioned us with convenience and growth opportunities for members and their businesses. Come sit down with us and discuss your business plans. Whether you're a business of one or one-hundred employees, the **Business Services** experts at Diamond can analyze, develop and institute a financial program best suited for your business' short- and long-term goals.


### Acquiring a Personal Loan

When you apply for a personal loan, lenders will evaluate your personal income and credit history, instead of evaluating the past performance and potential of your business. Personal loans also allow you more flexibility in how you spend your money. In most cases, the application process is not as stringent and you won't be asked to put up collateral.

### When to Use a Personal Loan

There are other scenarios where applying for a personal loan may be the easiest option:

- In the early stages of your business, a personal loan may be the only loan for which you can qualify. Without a business plan or cash flow to speak for your business, a personal loan may be necessary.

 The preceding article was provided by Diamond **Business Services** division: 610.326.5490, ext. 2123. Headquarters located at 1600 Medical Drive, Pottstown, PA 19464. Equal Opportunity Lender // Federally insured by NCUA.