

The Keys to Successful Small Business Ownership, Finance and Credit™

Client Curriculum - Managing Personal vs. Business Expenses

**Small Business Owner Financial
Education brought to you by:**



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The Keys to Successful Small Business Ownership, Finance and Credit™

National Foundation for Credit Counseling® (NFCC®) - Small Business Owner Counseling Program

Client Workbook

Version 6.0

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INTRODUCTION

Welcome! It is our goal you find this material helpful as it was hand selected to address some of the most common challenges faced by the self-employed or small business owners. We aim for this content to complement budget counseling sessions for people like you engaged with a member agency of the National Foundation for Credit Counseling® (NFCC®) across the U.S.

Whether you just started on a self-employment journey, have a business on the side or have dreams of serving millions, you are important to our national economy and local community by creating a job for yourself or others.

It is our hope this program empowers you to make informed decisions about being self-employed and a small business owner by providing you access to a NFCC counselor, information, resources, and tools. As you develop a greater understanding of personal and business finance best practices, you can choose the best course of action to meet your goals.

We would like to thank and acknowledge TD Bank, America's Most Convenient Bank®, and the TD Charitable Foundation, the charitable giving arm of TD Bank, for their support of the NFCC Small Business Owner Financial Counseling and Education Program supporting Small Business Owner Financial Wellness.

Client Overview
Module 1:
Managing Personal vs. Business Expenses
Why it Matters

- **Legal protection** for business and personal interests is often the primary reason for separating your business from your personal life.
- **Brand reputation** matters and when you're in business. It's best to look as professional as possible and combining business and personal finances can limit customer confidence in your business.
- **Managing a budget** for your business is just as important as managing a personal budget and reduces risk of overspending and promotes proper planning.
- **Tax preparation**, risk of IRS audit and fees associated with both are more likely if you do not manage personal vs. business expenses appropriately.

What's the Difference Between Personal and Business Finances?

It's easy for your personal finances to get tangled up with your business finances. But no matter what type of business you're running, it's a good idea to keep your personal finances separate from those of your business. For one thing, doing so will make it much easier to figure out what you can deduct and what you can't at tax time, and it will also make it easier to grow your business or even sell it.

1. Set up separate checking accounts.

If you have separate checking accounts and you are diligent about drawing on the right account at the right time, come tax time, all you have to do is review your bank statements for a clear picture. If you can manage to only use your business debit card and avoid cash, you may even be able to do your taxes and other financial reporting straight off your bank statements.

2. Keep separate shoeboxes for your receipts.

You don't need to use shoeboxes to store receipts (in fact, something a little more elaborate is a good idea), but whatever you use should have two physically separate locations for personal receipts and business receipts. If you don't have time to collect and sort both personal and business receipts, prioritize your business receipts. The truth is that a tax auditor is unlikely to care much about your personal expenses, but will be very interested in your business receipts.

3. Get a credit card for the business.

A business credit card will help you build up a credit history for your business separate from your personal credit history. More importantly, your credit card is one of the likeliest places for your finances to get muddled. Separate credit cards mean that even if there's something a little out of reach of your business' current budget, you won't be tempted to use your own credit card.

4. Give yourself a salary and don't exceed it.

If you write a check for the same amount every month from your business' checking account to your personal checking account, you can make it easier for both your personal finances and your business finances to stay on budget.

5. Set a budget for the business.

Just as you don't want to pull more money out of your business than your business can afford, you don't want the business to pull more money out of you than you can afford. Many small business owners find themselves pumping money from their personal accounts into their company's whenever there's a shortfall. And sometimes it's unavoidable. But if you have a clear budget based on your business' current earnings, you can help avoid both.

6. Make sure your family and partners understand the business' status.

It's important to remember that you're not always the only person involved in either your personal finances or your business' finances. Making sure that everyone is on the same page now can prevent problems later.

7. Understand who is a business expense and who isn't.

Among the biggest pitfalls in keeping your finances separate are entertainment, food and travel expenses. It's tempting to try to write off as much as you can as a tax deduction, but the simple fact is that dinners out with family and friends will not qualify as business expenses, no matter how you arrange things.

8. Draw lines between your home and your office.

Create a division between your office and your home, especially if you work from a home office. Doing so lets you claim the home office deduction as well as divvy up bills. Even if you have a home office, your business shouldn't be paying the entire electrical bill for your house. At least part of that burden should fall into your personal finances.

9. Keep logs of business use.

If you use a personal item, such as your car or your cell phone for business purposes on a regular basis, you should be keeping track of the split. Of course, life would be easier if you could have a separate car and a separate phone just for your business, but if that isn't possible, there are plenty of easy logging tools to use, especially for smartphones.

10. Talk to a financial professional.

If you are at all concerned that you are misclassifying an expense or you're having a hard time keeping your finances separate, bring in a pro. He or she will likely be able to help you establish a system that works for your own individual situation.

*SOURCE: [10 TRICKS TO KEEPING PERSONAL AND BUSINESS FINANCES SEPARATE](#)

Understanding the Risks of “Commingling Personal and Business Finances

Legal protection for business and personal interests is often thought of as the primary reason for separating your business from your personal life. And here are some areas where this can be particularly valuable:

Lawsuits and creditor claims. By forming a corporation, or even a limited liability corporation (LLC), you can limit personal liabilities arising from your business activities. In most cases, a creditor will not be able to make a claim against you personally, when filing action against your business. But in order to do this effectively, you have to create a clear separation between you and your company. If you're meshing personal with business transactions, the corporate shield may look more cosmetic than actual. You should consult with an attorney for more specific information on your business' legal incorporation options.

Tax purposes. Unless you keep your business and personal finances separate, you will have a nightmare to sift through when it's time to prep your income taxes. That can also raise the cost of accounting fees, since CPAs will charge additional fees for bookkeeping. True separation helps in the event of an IRS audit as well. The cleaner your company records are, the easier the audit will go. If your personal finances are merged with your business, the IRS will be forced to audit your personal records as well as business. This is what can happen if the line separating the two isn't clear.

Borrowing in the business name only. Though it's not easy to do, if you want to take a loan in the name of your business, you'll have to show that your business is successful without benefit of your personal resources. If your accounts and those of your business are the same, the bank will likely require you to be on the loan no matter what.

A Professional Reputation. Customers and clients don't usually feel confident in dealing with a hobby type business, and that's how any business can look if there isn't a proper separation between the business and its owner.

When you're in business, you should want that business to look as professional as possible. Combination of business and personal finances won't help your cause. As an example — though it may work for you — a client may be uncomfortable about writing a check to you personally, rather than to your business.

Protection from Self-Destruction. If you don't view your business as a separate, living, breathing entity, you may treat it as your personal cash register. This mindset increases the possibility you might drain the business to the point of insolvency. Even a profitable business can be run into the ground if the owner withdraws too much money from the business, without regard to the solvency of the company.

Financial Diversification. Having a business that is a truly separate financial entity is a form of [financial diversification](#). In the event your business collapses, you'll have your personal finances to fall back on. Or if you have financial problems on a personal level your business can survive, insuring you have at least the business income to rebuild on. If you fail to keep the two properly separated, you run the risk of pulling both financial situations down at once.

Ease of Proving Financial Stability. As a business owner, you should have the ability to view your company's financial status at any time, and on short notice. If your business and personal records are completely separate, this will be easy to do. But if your finances are essentially merged, it could literally months to untangle your finances adequately enough to produce a credible [set of financial statements](#).

Perhaps more important, if you need to produce financial statements for an outside party — such as a bank or potential business partner — you won't be able perform this task quickly, or even properly, if your business records are merged with the personal ones.

*SOURCE: <https://investorjunkie.com/30563/benefits-separating-business-personal-finances/>

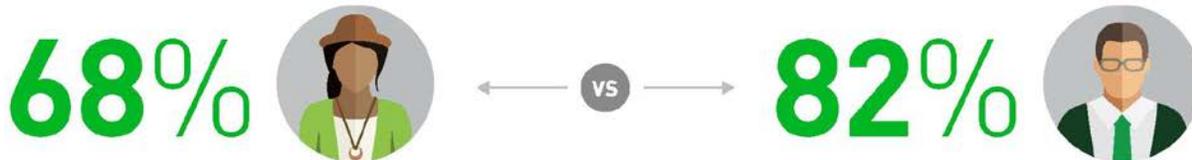
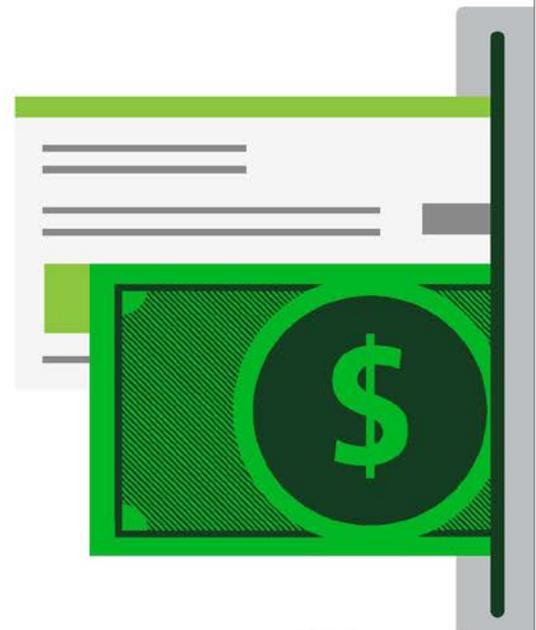
A recent TD Bank Survey suggests it is common for consumers to commingle personal and business accounts, and provides some additional benefits of separating them.



It's not Personal... It's Business

TD Bank survey revealed that 27% of small-business owners **use the same checking account** for personal and business finances

27%



Female business owners are **less likely to separate their funds** than male business owners.



Keeping your money together may seem easier, but at the end of the day, it's a huge headache. Separate checking accounts for business owners are a no-brainer solution.

Here are a few reasons why:

Personal



VS

Business



<p>WHAT'S MINE IS MINE?</p>	<p>Expenses are tangled, making it easy to dip into business income to cover personal splurges, while short-changing business investment.</p>	<p>Business and personal expenses stay in their own lanes, decreasing the temptation to "borrow" from yourself.</p>
<p>IT'S A PLASTIC WORLD</p>	<p>You're limited to accepting only cash or checks, because personal accounts can't tie into card processing systems.</p>	<p>Give customers the freedom to pay with cash, checks, debit or credit.</p>
<p>CASH FLOW KNOW-HOW</p>	<p>Cash-flow confusion is a way of life—there's no clear picture of business income.</p>	<p>Get an accurate, complete view of your cash flow.</p>
<p>TAXES BY THE BOOK</p>	<p>Business tax write-offs often require proof (and piles of receipts) if paid with personal funds, and accountants can charge more (!) for comingled finances.</p>	<p>Separation of funds and receipts may mean fewer tax-season headaches—it will be easier for you and the IRS.</p>

Client Worksheet:

Thinking about your goals and future, what steps can you take to better manage your personal and business finances?

GOALS	I've Done It	Will Do 1 to 3 mos.	I Will think about it
Open unique bank accounts for biz vs. personal			
Save receipts and separate			
Create or revisit business plan			
Create a business income and expense budget and forecast			
Consider accepting checks as payment			
Consider taking credit/debit for payments			

RESOURCES & HELPFUL LINKS

Alternative and Online Lenders

<https://www.nerdwallet.com/blog/loans/what-is-an-online-loan/>

<https://us.accion.org/resource/alternative-lending-landscape/>

Assessing Your Business' Financial Needs

<http://virtual-advisor.org/td/assessingcompanyfinancialneeds/>

Business Advising

www.businessadvising.org

Business Borrowing 101

<http://www.venturize.org/borrowing-101/>

Business Borrowers Bill of Rights

<http://www.responsiblebusinesslending.org/>

Business Loan Checklist

<http://www.venturize.org/get-started/loan-app-checklist/>

Business Loans for Poor Credit Score

<https://loans.usnews.com/business-loans-for-bad-credit>

Cash flow

http://www.score.org/60_guide_managing_cash_flow.html

Cash flow management as part of the SBA's financial management series

http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_capgrowth.doc

Community Development Financial Institutions/Mission Driven Lenders and Education Resources

<http://www.venturize.org/mission-driven-lenders-locator-map/>

Marketplace Lenders

<http://www.venturize.org/borrowing-101/types-of-lenders/online-only-marketplace-lenders/>

Mentoring, Resources and Tools for Small Business Owners

www.score.org

National Association of Latino Community Asset Builders

<https://www.nalcab.org/>

National Black Chamber of Commerce

<http://www.nationalbcc.org/>

RESOURCES & HELPFUL LINKS

Small Business Administration Resources and SBA Loans

<https://www.sba.gov/>

SBA Loans

<https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs>

Women's Business Centers

<https://www.sba.gov/tools/local-assistance/wbc>

About the NFCC®

Founded in 1951, the National Foundation for Credit Counseling® (NFCC®) is the nation's first and largest nonprofit dedicated to improving people's financial well-being. With offices serving 50 states and Puerto Rico, NFCC Certified Credit Counselors are financial advocates, empowering millions of consumers to take charge of their finances and their futures.

NFCC member agencies assist individuals and families regardless of income or circumstances to ensure they never have to face their challenges alone. NFCC Certified Credit Counselors nationwide are trained, certified and ready to complete a comprehensive financial review and action plan to help clients meet their financial goals—in person, over the phone or online.

NFCC member agencies provide affordable, one-on-one, customized financial reviews and actions plans to address:

- Credit card debt
- Student loan debt
- Debt management
- Prepurchase housing decisions
- Foreclosure prevention
- Bankruptcy
- Overall money management
- Financial education needs
- Asset building
- Small business owner finances

National Foundation for Credit Counseling
2000 M Street, NW, Suite 505
Washington, DC 20036
202.677.4300

[NFCC.org](https://www.nfcc.org)