



How new founders separate personal and business credit

Description

One of the first rules of business is to keep your company's finances separate from your personal accounts. This rule applies not only to incoming cash but also to credit. Dipping into your personal credit line to cover business expenses is a costly pitfall that every new founder must avoid.

Develop Your Business Concept (The First Step)

Consider this separation a foundational risk management test, which starts with the very concept of the business itself, before you even become a founder. As you brainstorm business ideas and conduct market research, you should also be planning your future company's financial strategy, including the type of bank account and credit strategy.

For example, it's all too easy for new founders to dip into their own personal accounts to pay for filing an LLC or LTD. The emotional whirlwind and urgency of an exciting prospect may lead to a domain registration, financed by a personal savings account. While these expenses may not seem like major costs, they set the tone.

Instead, think carefully about the type of business you want to start and why. Research the sector and consumer market for that idea. Is there a market for your idea? How much startup capital would you need to produce (or procure) inventory, lease space, and market your product or service?

You may need to invest in business consulting during this stage, and that should be financed by a separate business account.

Work on Your Financial Strategy

As you work towards a profitable idea, start setting up your business bank accounts and credit lines. Planning for the first five years is a good rule of thumb to follow. Ask yourself:

- How much do you plan to make?
- How much do you want to make?
- How can you create measurable goals?
- Where is your sector projected to be in five years?

Asking these vital questions (and more) helps form your business plan, which is crucial for securing business loans and financing.

Be as thorough as possible during this stage to avoid impulse buys. For example, during your financial audit, you may realize that strengthening your personal credit profile is necessary before lenders will consider business financing. Early-stage banks often evaluate the founder's personal credit, so improving it can be a strategic move.

In this case, exploring credit-builder options such as a [118 118 Money credit card](#) designed for UK borrowers who want to improve personal credit can help you establish a stronger credit foundation before applying for business loans.

Complete Your Business Plan

A complete business plan is key to starting on the right financial foot. It breaks down every expense, both starting and forecasted, for every expense category, from marketing to product development costs. Your [supply chain management](#) strategy should be clearly outlined in this plan, solving challenges for getting products into the hands of customers quickly.

Even the time and tools needed to complete and present a business plan require some level of financing, necessitating the need for a separate business account. Remember, it's okay to change accounts as your company's needs change; this is especially true if you have plans for scaling.

As you build a business plan, consult with an accounting professional who can help you create an expense account strategy for each category, ensuring your marketing budget isn't used to finance product sourcing, for instance. Having a separate payroll account is also vital to ensure employees are paid adequately on time. You'll also need separate tax accounts to separate property taxes from payroll taxes.

Officially Establish Your Business

Once you have a [completed business plan](#) (with a financial strategy), you're ready to establish your business as a legal entity. Your business must be registered to secure business accounts, credit cards, loans, and other forms of business financing. Registering your business as an LLC, partnership, S-Corp, or LLP, depending on your location, also protects your personal assets, like your home or savings accounts, from potential business liabilities.

You will also need an EIN for tax purposes if your company is in the U.S. or a Unique Taxpayer Reference (UTR) number if your business is UK-based. These identification numbers are also required to obtain business bank accounts.

Your company will need an official business address, not your residential address. You may use a P.O. Box Number. Make sure your company contact information, including phone number and email, is consistent across all business accounts.

Build Your Business Credit File

Start building your company's credit file by obtaining a free [D-U-N-S number](#). This number is also used by global businesses. The Data Universal Numbering System number is used to track your company's financial history, establish credit, and verify the necessary legitimacy for global trade, securing government contracts, and obtaining business grants.

Establishing net-30 accounts with suppliers will also help you build a business credit history, as these accounts are reported to agencies like Dun & Bradstreet, which also issues DUNS numbers.

Start Building Your Financial Strategy

As you embark on this exciting business journey, remember the vital importance of separating your personal and business finances. Factor this rule into your strategy from the get-go, starting with the brainstorming stage. Present a complete business plan, properly establish your business, open separate accounts, and work with an accountant to ensure proper cost management and tax compliance.

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