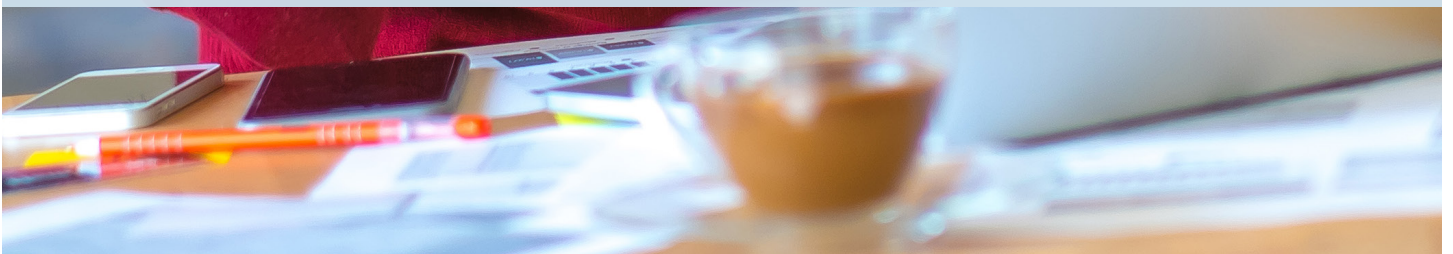




SMALLBIZ AHEAD



THE ULTIMATE GUIDE TO BUSINESS CREDIT CARDS: THE SMALL BUSINESS OWNER'S HANDBOOK



By Allie Johnson

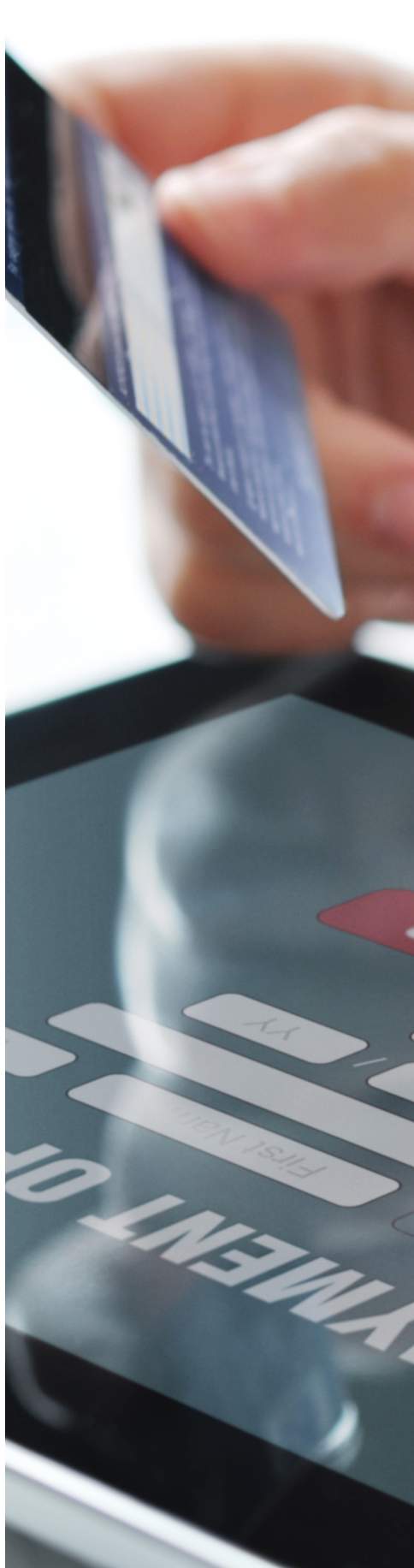


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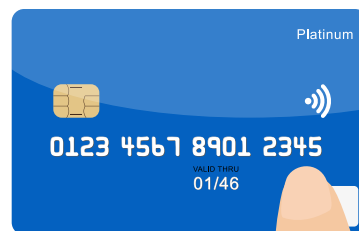
INTRODUCTION

Credit cards are a powerful tool for small business owners, offering an easy and convenient way to manage cash flow, track and manage purchases and leverage business spending to earn rich rewards.

Many small business owners don't take full advantage of the benefits that business credit cards offer; often because they're too busy running their business to delve into the finer details of their credit card benefits documents. This guide will break down the ins and outs of small business credit cards, showing you how to put plastic to work for you and your small business.

We'll explain how to use credit cards to streamline accounting and make tax time a snap, buy yourself a little extra room in a cash flow pinch, maximize the rewards you earn for every small business dollar you spend and employ those rewards to boost your business.

This guide also points out a few pitfalls of credit cards for small business and explains how to avoid them, so your use of credit cards will help, rather than hinder, your small business. Read on to become small business credit card savvy.



CHAPTER 1: BENEFITS OF CREDIT CARDS FOR SMALL BUSINESS

Most experts recommend that small business owners use a business card because they simplify accounting, cash flow management and expense tracking, while also providing an opportunity to earn rich rewards you can use to boost your business.

Here's an overview of the ways credit cards can help your small business.

SEPARATE BUSINESS AND PERSONAL FINANCES

A small business credit card allows you to separate your business and personal finances in two ways. First, the card allows you to separate your business and personal **spending**. Second, the card allows you to separate your business and personal **credit history**.

SPENDING

One challenge many small business owners face is keeping their business spending isolated from their personal spending.

For example, if you need to buy a plane ticket to attend a conference and you lack a dedicated business card, you may whip out your personal airline rewards card without thinking about the fact that the business expense will get lost amongst the charges for groceries, household items and clothing.

Why is this a problem?

Mixing personal and business spending can cause major headaches at tax time, when you spend hours trying to sort the two types of expenses. And it can cause even bigger problems down the road if you get audited by the IRS. If you inadvertently include a personal expense as a business deduction, you

could owe more taxes or even face civil or criminal penalties if the IRS believes the error was willful, says business owner and accountant Gene Marks.

Using a dedicated business credit card for all of your business purchases makes it easier to keep your purchases separate.

CREDIT HISTORY

When you open a personal credit card, the issuer reports the account to one or more of the three major consumer credit bureaus: Equifax, Experian and TransUnion. These bureaus keep track of credit card and loan account information and generate a credit report for each consumer, which is used to create a credit score that lenders use to help them decide whether to issue credit in the future and how much to charge for that credit. You can check your personal credit reports for free once a year at [AnnualCreditReport.com](https://www.annualcreditreport.com).



One advantage of small business credit cards is that they generally don't report to the three major consumer credit bureaus unless an account is in default, according to John Ulzheimer, a credit expert who worked for a credit bureau and a credit scoring company.

In general, using more than 30 percent of your credit limit may drive your credit score down.

There are two main reasons you don't want your business credit card account on your personal credit report, he explains.

First, having your business card reported on your personal credit would affect your credit utilization ratio, which is the amount of available credit you're using at any given time. In general, using more than 30 percent of your credit limit may drive your credit score down,

meaning you'd be less likely to qualify for credit and that you may get charged higher interest rates. Having your business spending reflected on your personal credit could throw that ratio out of whack, Ulzheimer points out.

Take the example of a dentist who charges a \$50,000 machine on a credit card. Before that purchase is paid off, it could reflect the use of a large portion of available credit. That could drive the dentist's score down, even if he or she quickly pays off the purchase in full.

Second, your business credit card spending may affect another important measure of creditworthiness, your debt-to-income ratio, which lenders scrutinize before giving a loan like a mortgage. Most lenders want to see that ratio under 30 to 35 percent, according to Ulzheimer.

So, your business spending could push up your debt total and cause you to pay thousands more in interest over the life of the loan or, in a worst case scenario, to get denied for a mortgage.

IMPROVE YOUR PURCHASING POWER

Business cards may provide higher credit limits than personal cards, giving a business owner more spending power.

The card issuer sets the limit commensurate with business revenue, and some issuers will allow credit limit leeway for business owners. American Express, for example, may allow for spikes in usage if the business owner calls ahead of time to notify the card issuer that they'll be making a larger-than-usual purchase.

Having a business card with a generous credit limit can provide plenty of spending power for months when expenses are high, allowing you to buy an expensive piece of equipment for your business or purchase plane tickets for a group of employees to attend a conference.

Having a high limit on one card prevents you from having to divide purchases amongst multiple cards or worry that your card will get declined.





EASILY MANAGE BUSINESS FINANCES

Business credit cards can help you manage accounting, cash flow and expense tracking.

Business card issuers provide spending statements broken down by user-defined categories, which simplify accounting, says Jim Angleton, president of AEGIS FinServ, an issuer of credit and debit cards.

The easiest way to access and use these statements is to log in to your account and tweak the reports to break them down into the spending categories you use in your small business. The reports will sync with most small business accounting software, including Intuit QuickBooks and Microsoft systems, which makes it much easier to complete your tax returns at tax time. “It saves a tremendous amount of time and money,” Angleton says.

ASSIST YOUR CASH FLOW

Business credit cards also help with cash flow for business owners who need a little wiggle room to deal with late paying clients or unexpected expenses. Putting an expense on a credit card gives you the rest of the billing cycle, plus the grace period, to come up with the cash to make your payment. If you need even more time, call your issuer to ask for an extension of the grace period. This can often buy you an extra ten days, Angleton says. Card issuers typically don’t offer this courtesy on consumer cards, but “understand the cash flow issues small businesses face,” explains Angleton. If an issuer agrees, ask for an email confirmation, so you have written proof of the extension.



REPLACES PETTY CASH AND EMPLOYEE REIMBURSEMENTS

Business card issuers typically offer the option of obtaining extra cards on the same account for employee use. Most business card issuers allow you to set customized spending limits for each employee, which eliminates the need to process reimbursements and makes it easier to keep tabs on employee spending.

For example, you might cap an employee who only buys office supplies at \$200 in purchases per month, while you may allow an employee who makes frequent business trips \$2,000 a month. Look for a credit card company that offers you the option of viewing spending reports broken down by person, which will help you monitor and control employee spending. For more information on employee credit cards, see Chapter 6.

TAKE ADVANTAGE OF PERKS AND REWARDS

Business cards may offer bigger benefits than personal credit cards. Business cards usually have larger sign-up bonuses than the equivalent consumer cards. Small business owners can easily earn 50,000 to 60,000 points, worth at least \$500 to \$600, for opening an account and spending \$3,000 to \$5,000 in the first couple months the account is open. Business cards also allow you to earn a higher number of points than you would with a consumer card, and they offer a wider array of valuable perks geared toward business travelers, like airport lounge access. For more information on business credit card perks, see Chapter 5.

Business cards usually have larger sign-up bonuses than the equivalent consumer cards.

CHAPTER 2: WHAT YOU NEED TO KNOW BEFORE YOU APPLY FOR A BUSINESS CREDIT CARD

Business credit cards have many benefits, but they're not always a boon to business owners. Whether you're shopping around for your first business credit card or you already have one or more and are looking for a new one with richer rewards, it pays to be aware of the downsides of business cards.

BUSINESS CARDS MAY LACK CONSUMER PROTECTIONS

The 2009 federal Credit Card Accountability Responsibility and Disclosure Act, known as the [Credit CARD Act](#), implemented rules to protect cardholders of consumer credit cards. The law doesn't apply to business credit cards, but some business card issuers voluntarily extend these consumer protections to their cardholders.

If a business card issuer doesn't extend all of the CARD Act protections, these are some risks a small business cardholder faces:

1. **Surprise interest rate hikes.** A business card issuer could suddenly raise the interest rate on a card and even apply the new rate to an existing balance.
2. **Application of payments in a way that benefits the card issuer but costs the cardholder.** If you take a cash advance at a higher interest rate, then make a partial payment on your balance, a business card issuer could apply your payment to the lower-interest part of your balance, leaving the higher-interest portion on your bill to continue racking up interest.
3. **Not giving you enough time to pay your bill.** A business card issuer isn't required to give you 21 days between the day the statement is issued and the date the bill is due. A shorter grace period could leave you scrambling to make a payment on time or cause you to get hit with a late fee.

4. **Universal default.** A business card issuer is allowed to charge you a penalty interest rate, a punitively high interest rate, based on information on your credit report that shows a late payment or other mistake you made on an account with another creditor.
5. **Short notice on account changes.** Business card issuers don't have to provide 45 days' notice of any major changes to the terms of your account, including changes in rewards structure, so you could get surprised with an immediate change to your card terms.

Also, on business cards an issuer is permitted to charge you an over-limit fee if you exceed your credit limit. A business card issuer may also impose a very high late fee, whereas consumer card late fees are capped at \$25 if you're not a regular late payer.

Look for a card issuer that voluntarily extends all or some Credit CARD Act protections to its business cards. In its 2016 [business card survey](#), CardHub.com looked at the five Credit CARD Act protections mentioned above and found that Bank of America is the only issuer to voluntarily include all of those provisions with its business cards. However, most other issuers offer at least some of those protections.

On business cards an issuer is permitted to charge you an over-limit fee if you exceed your credit limit.



BUSINESS CARDS MAY CHARGE HIGHER ANNUAL FEES

Business card annual fees vary, generally from under \$100 up to \$450 or more. As a general rule, it's a good idea to add up the dollar value of the rewards you expect to earn based on any sign-up bonus you'll receive plus the rewards for your average monthly business spending on that card.



For example, a \$300 annual fee may be a good value if you get a sign-up bonus worth \$800 and enough additional rewards to buy two business class tickets to Paris for a much-needed vacation. If you get no sign-up bonus and only \$200 cash back each year from your regular spending, you might want to look for a card with either no fee or a lower fee.

Another consideration is to add up the dollar value of perks you'd otherwise purchase that are provided on the card for free. For example, the card may offer a free checked bag on each flight you take. If you normally pay to check a bag while traveling monthly for business, multiply the cost to check a bag times 12 to estimate the value of that perk for you.

Doing this math should give you a good idea of whether the annual fee is worth the cost.

BUSINESS CARD ISSUERS WILL CHECK YOUR PERSONAL CREDIT

Even though business card issuers generally don't report business card accounts to the three major consumer credit bureaus, issuers will check your personal credit before approving you for a business card. Also, you're personally liable for the charges you make on a business card.

Issuers will check your personal credit before approving you for a business card.

That's one more factor to weigh before applying for a business card.

CHAPTER 3: APPLYING FOR A SMALL BUSINESS CARD THAT'S RIGHT FOR YOU

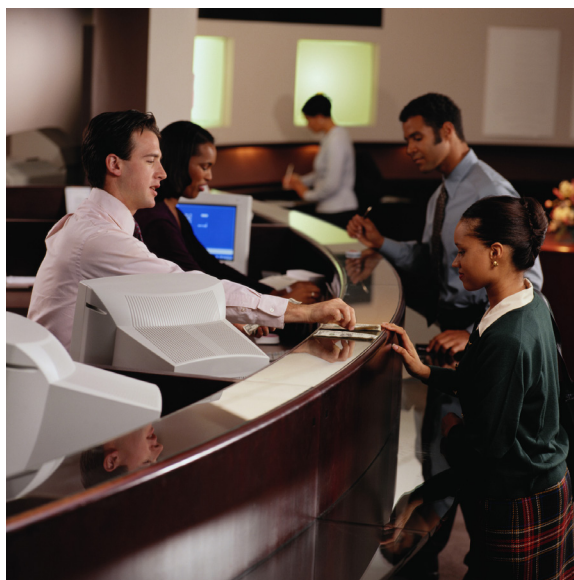
Before you apply for a new small business card, whether it's your first or your tenth, do some legwork to make sure the new card is a good fit for you and your small business.

Here are 10 questions to ask about a business card before you fill out the application:

1. **What's the rewards structure?** Do you want cash back or airline miles? Cash back rewards may be more modest, but are easier to track and use. Airline miles may offer more bang for your buck, but you need to be sure they'll get used, especially if your business doesn't require much travel.
2. **What perks does the card offer?** If you travel a lot, travel perks may be a top priority. If you buy pricy computer equipment, you may care more about perks like extended warranty protection on items purchased with the card.
3. **Does the issuer extend CARD Act protections?** Consider whether the issuer voluntarily extends CARD Act protections to its business cards. If you pay your bill every month in full, without fail, and your business is generating plenty of revenue, the CARD Act protections may not be one of the major factors you weigh when choosing a card. But if you're just starting out or if you may need to carry a balance at some point, this could be an important consideration.
4. **What's the annual fee?** If you're just starting out and you can't afford to or don't want to pay a big annual fee, you do have options. A few business cards don't charge an annual fee. On the other end of the spectrum, some cards charge a hefty \$450 or more, but may offer rich perks that to some business owners are more than worth the cost.
5. **Does the issuer offer extra cards for employees?** If you have employees who will need cards on the same account, check to see if this feature is

offered, how many cards you can get and what employee spending tracking tools are included.

6. **What does the fine print say in the terms and conditions?** It's a good idea to read the terms and conditions before you apply for a card. Business card issuers aren't required by law to give you 21 days to pay your bill (see chapter 4), so pay special attention to the grace period, which is the number of days between the statement issue date and the payment due date.
7. **What bank issues the card?** If you have a brand new business and don't yet have much revenue coming in, consider applying for a card issued by a bank with which you already have a relationship, advises Ulzheimer. For example, you may look at the bank where you keep your personal or business checking account, or one of the issuers of your personal credit cards. A bank, even a large bank, to which you're a known commodity may be more likely to extend you credit. If you have a consumer rewards card you like, consider getting a business card from the same issuer, so the points can be combined in the same account for bigger rewards.
8. **Does the issuer report to consumer credit bureaus?** Though most business card issuers don't report to the three major consumer credit bureaus unless the account is severely delinquent (or in some cases, both severely delinquent and closed,) you should know the practices of a card issuer you're considering before you apply.
9. **How's your credit?** Because issuers will look at your personal credit, consider your credit history and score before applying. If you have good to excellent credit, you may be eligible for a wide array of business cards. Even if your credit is a little shaky, you may still have options. For example, the [Capital One Spark Classic for Business](#) may accept applicants with just fair credit. And several issuers offer secured business credit cards if you need to build your credit.



10. **Do you want a charge card or revolving credit?** Some business cards, rather than offering revolving credit, offer what's known as open-term credit, Ulzheimer says. Open-term cards, more commonly known as charge cards, must be paid off in full every month. This is a big consideration, especially if you ever want or need to carry a balance, even for a short time period.

CHAPTER 4: USING YOUR SMALL BUSINESS CREDIT CARD WISELY

The ideal way to use a business credit card is as a convenience tool for your small business.

Just as with consumer credit cards, the ideal way to use a business credit card is as a convenience tool for your small business. You run business purchases through your credit card to create a spending record, collect rewards and protect yourself with benefits like [purchase protection](#), extended warranty protection and travel insurance. Each month you pay your bill in full.

WHY IT'S RISKY TO GO INTO BUSINESS CREDIT CARD DEBT

Despite its benefits, a business credit card also has the potential to sink your small business if you get deep in debt. In fact, Kauffman Foundation, a nonprofit organization that [offers training to entrepreneurs](#), studied the use of credit by new businesses and found that about half of new businesses go into debt, and that debt usually includes carrying a credit card balance.

It's downright risky to bootstrap your startup with credit cards. A Kauffman Foundation report, [The Use of Credit Card Debt by New Firms](#), found that for every \$1,000 in credit card debt a business carries, the chance of that business shutting its doors increases by 2.2 percent. So steer clear of business credit card debt unless it truly is your best option.



WHEN IT MAY MAKE SENSE TO USE A CREDIT CARD FOR A SHORT-TERM LOAN

A credit card can offer a good option if you need cash fast, know you can pay the loan back quickly, and can't afford to wait or jump through hoops for another type of financing.

For example, small business consultant Gene Marks has a client who owns a small coffee shop and wanted to open a second location. The business owner needed to put down \$5,000 to get a lease on the commercial space, and he didn't have the cash readily available. Other business owners were competing to lease the location, and the coffee shop owner didn't have time to seek a loan, so he took a cash advance on a credit card. Taking a cash advance on a business or consumer credit card is usually a bad idea because interest tends to be higher than the interest charged on purchases, and it starts accruing from the day you take the cash advance. In the coffee shop owner's case though, the tactic worked well. He got his new space and paid the credit card balance off quickly.

KNOW YOUR BILLING CYCLE TO AVOID INTEREST ON ROUTINE PURCHASES

Time your credit card billing cycle with your cash flow so you don't inadvertently get hit with interest on a credit card balance. For example, know what day the bill is issued every month and how much time you have to pay the balance in full without getting charged interest.

Don't get tempted to rely on your business credit card as a cash management tool, which could cause you to sink into high-interest debt and may even threaten the survival of your business.

Business credit cards, especially rewards cards, tend to have high interest. The [average business credit card APR](#) in 2016 is about 13 percent, but business card APRs can reach 20 percent or higher.



If you do need to finance a purchase you know you can pay off in less than a year, look for a business card that offers you an introductory 0 percent interest deal. For example, the Chase Ink Cash Business Credit Card offers 0 percent interest on purchases for the first year. So you could, for example, furnish your new office on a card without paying interest as long as you pay the balance in full within the introductory period. Make sure to pay your bill on time every time because a late payment can void your no interest deal, Angelton warns.

In general, make every effort to use your credit card as a tool of convenience, rather than a financing tool.

Make sure to pay your bill on time every time.

CHAPTER 5: MAKING YOUR BUSINESS SPENDING PAY WITH REWARDS AND PERKS

Rewards and perks are two of the most important benefits of getting a business credit card. But benefits vary widely, so it's important to be savvy about card benefits to get the most out of your card.

Use a credit card comparison site to easily compare business card offerings. For example, [CreditCards.com](https://www.creditcards.com) and [Credit Karma](https://www.creditkarma.com) offer detailed business card comparisons.

Here are some of the rewards and perks commonly offered on business rewards cards:



BUSINESS CARD SIGN-UP BONUSES

Just as with consumer rewards cards, sign-up bonuses are common on business rewards cards. These incentives to apply for a new card can be very lucrative, often worth hundreds of dollars. In fact, getting a sign-up bonus may be your best chance to get the biggest rewards bang for

your buck, says Rosemarie Clancy, vice president of content and marketing for [RewardExpert](#), a company that helps consumers maximize their credit card rewards.

To earn a sign-up bonus, the cardholder typically must spend a certain amount of money on the credit card within a certain time period after opening the account. This requirement is known as “minimum spend.” Each offer is different but a business card issuer might offer a bonus of 60,000 points for spending at least \$5,000 in the first three months.



Generally, small business cards offer slightly higher sign-up bonuses than consumer cards but may require a little higher minimum spend. For example, a business card sign-up bonus might be 10,000 points higher than the bonus on a similar consumer card from the same issuer, but also might require \$1,000 more in initial spending.

If you're just starting out, or don't have a lot of operating expenses, and aren't sure you'll be able to make the minimum spend, it can be helpful to strategically plan the opening of a new card for just prior to making a large, necessary purchase like a computer or a trip to a trade show, Clancy suggests.

Strategically plan the opening of a new card for just prior to making a large, necessary purchase like a computer or a trip to a trade show.

BIG POINTS PER DOLLAR ON BUSINESS SPENDING

Business rewards cards may be more lucrative than consumer rewards cards in another way: the points you earn for regular spending. It pays to spend some time examining where your business spends money and choosing the card rewards program that would most benefit your business.

Some business cards offer increased rewards earnings, up to five points per dollar for items such as office supplies, telecommunications and internet services, and travel. Some consumer cards offer five points per dollar spent in rotating categories (for example, home improvement one quarter, restaurants

the next) but they usually have low caps, only allowing the higher earnings on a certain amount, such as the first \$1,500 spent in that category. That limits the amount of bonus rewards you can rack up. However, on business cards, if there are caps, they tend to be much higher. For example, a business card may offer a higher earning rate on the first \$50,000 spent in a year. That makes it easier to earn more rewards on a business card, for the same dollar amount of spending, than on a consumer card.

Some business cards also offer you extra reward bonuses based on the total amount you spend each month. Business cards may also run periodic programs where they boost rewards points in certain categories, such as rental cars or gas, for a certain time period.

PREMIUM PERKS FOR BUSINESS TRAVELERS

Business cards may be more likely to offer premium travel perks like airport lounge access. Since day club passes to these airport lounges can set you back \$50 a day or more if you pay for them, this perk can pay off, especially for frequent travelers.

These lounges offer you a quiet place to work, as well as free snacks and beverages, TV and WiFi. Some cards also offer priority boarding and free WiFi on flights. The perks on many business cards are geared toward what small business owners tend to do a lot – travel, Ulzheimer says.



USING YOUR BUSINESS CARD REWARDS POINTS

Once you've racked up all those rewards, here's the fun part: using them. You have a variety of options: You can use the cash back to boost your business or to reward yourself with a massage or dinner out for a job well done. You can use miles for business trips or vacations. Or you can get creative and use your credit card rewards as an essentially free way to reward your employees. For example, each month clothing retailer Betabrand [sends one employee on an international trip](#) using the past month's credit card rewards. Employees have gone to Iceland, Japan, France and other exotic locales.

CHAPTER 6: HOW TO MANAGE EMPLOYEES AND CREDIT CARDS

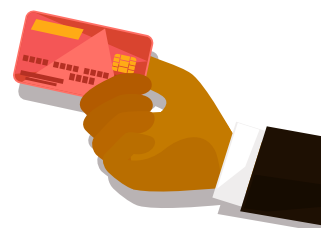
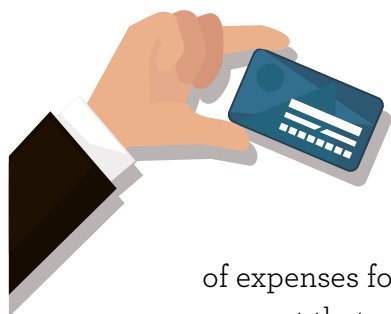
One of the perks of using a business card is that the card issuer may offer additional cards for employees. The number of extra cards you're allowed varies by issuer. Some cards designed for higher-revenue small businesses may offer as many as 200 additional cards per account.

If you go this route, it's crucial to manage and monitor employees' use of your business credit card account to prevent unauthorized charges and fraud. Here are three steps that'll help safeguard your business when it comes to employee credit cards:

1. **Decide who gets a card.** Consider providing a card to any employee who makes frequent, high-dollar business purchases. In these cases, providing the employee with a company card can save time, avoid putting too much pressure on their personal funds and prevent reimbursement hassles.



2. **Create an agreement.** Set ground rules in writing, so each employee knows exactly how he or she may and may not use the company credit card. Detail the types of expenses for which the card may be used, limits on the amount that may be spent, and times when an employee must get pre-approval from a supervisor before putting an expense on the card. Consider requiring authorization for certain types of purchases or anything above a certain amount. Figure out ahead of time how you'll handle problems such as unauthorized charges. One option is to ask the employee to sign an agreement stating that unauthorized charges may be deducted from their paycheck.



3. **Monitor card use.** Stay on top of card use and monitor reports to make sure employees are using their cards as agreed. Be aware that [fraud can start small](#) – with an action like buying a tank of gas for personal

use on the company credit card, so it's important to look at credit card reports regularly. Use the function that allows you to break out charges by employee to see if any purchases raise red flags. Some card issuers also allow you to limit employee credit card spending to certain categories.

CHAPTER 7: ALTERNATIVES TO BUSINESS CREDIT CARDS

If you're not a fan of business credit cards due to their lack of consumer protections, you have alternatives, including business debit cards and consumer credit cards. Each has pluses and minuses.

USING A PERSONAL CREDIT CARD FOR BUSINESS

While you should definitely have a dedicated credit card you use for business expenses and nothing else, it doesn't necessarily have to be a business credit card. In fact, you could use a personal credit card for your business purchases instead of a business credit card if you want the consumer protections offered by the CARD Act.

The biggest downside to using a consumer credit card, discussed in Chapter 1, is that it mixes your personal and business credit. This might work out if you have plenty of available credit, you pay your card balances in full every month and you don't anticipate doing enough business spending to drag down your personal credit score. That means that any time in your spending cycle, your total credit card debt, including your business spending, would need to stay at less than 30 percent of your total available credit.

You have alternatives, including business debit cards and consumer credit cards.

Even business spending that you pay off every month can be counted as outstanding debt before it's paid off, Ulzheimer points out.

SECURING A BUSINESS DEBIT CARD

Another option is to use a business debit card, linked to your business checking account. However, there are major downsides to using a business debit card for most routine purchases for a small business.

First, the money comes out of your account immediately. Because this allows for no cash flow leeway, you need to make sure the money is in your account the day you make a purchase.

Second, you're exposing the money in your business account to greater fraud risk. If fraud occurs on your credit card, the issuer may spot it right away, lock down your account and remove the purchase from your bill pending an investigation. In fact, that's required by law. If fraud occurs on a debit card, you may lose access to those funds while the bank investigates, which could put a crimp in your business operations.

CONCLUSION

Business credit cards have both benefits and pitfalls that small business owners should understand before signing up. In general, the pros of business credit cards far outweigh the cons, though it's essential to avoid the trap of high-interest business card debt. Ultimately, savvy card use can boost your business, offering perks and extras that can save you money and time and, ultimately, help your business prosper.

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