

There's a Real Difference Between a Personal and Business Credit Card

Not all credit cards are created equal. If you're a small business owner, you're missing out if you don't have a business credit card.



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[Jared Hecht](#) • Guest Writer

If you're a business owner, there are dozens of reasons to have a credit card. For one thing, they are a great way to keep track of all your business expenses in one place. They also offer opportunities to earn points or rewards on purchases you would make anyway. Not to mention, they can be an excellent option for financing your business, especially if you are in the startup phase and can't yet qualify for a small business loan.

But one thing many business owners get wrong is putting all their business expenses on a personal credit card. While business and personal credit cards may function the same way (in terms of how you use them), there are some key differences that set them apart. Here are the most important differences between a personal and business credit card -- and why the latter should *definitely* be in the back pocket of every business owner.

Higher credit limits on business credit cards.

You read that right: you can typically get a much higher limit with a business credit card than with a personal one. This is because businesses, in almost all industries, have more expenses than an individual person ever would. They also have more capital coming in than individual people, so it makes sense that they'd have more spending power.

That higher limit can be invaluable to your business for several reasons. For one thing, you're going to have to make some big purchases as a business owner, and putting them on a business credit card is a great way to give yourself some short-term financing.

For another, a high credit limit means a better opportunity to build your business credit score. One of the important factors for determining your business credit score is your credit utilization rate -- the percentage of your available credit that you have used up, on average.

A healthy credit utilization rate is anything under 30 percent. So, if you have a credit limit of \$10,000, you only want to owe up to \$3,000 at a time. The higher your credit limit, the easier it will be to keep your spending well under the desired credit utilization rate, which will, in turn, help build your business credit score -- something that will be crucial for the future of your business.

It affects business credit *and* personal credit.

Using a business credit card is quite important in building your business credit score, which will be vital in helping you qualify for other forms of financing down the line. However, before jumping into using a business credit card, it's important to understand just how it affects both your business and personal credit.

While your personal credit card use will only affect your personal credit score, how you use your business credit card will affect *both* your business credit score and your personal credit score. This is because most business credit cards require a personal guarantee. This gives your business credit card company the security of knowing you're personally responsible for paying off your business credit card debt if something should happen and your business can't cover it.

Because of this inevitable intertwining of your business and personal history, business credit card companies will typically look at your personal credit score as part of your application. Some business credit card companies report credit card activity just to business credit bureaus, while others report to consumer credit bureaus as well.

If you have a business credit card but are unsure which bureaus your issuer reports to, ask them to find out. Do the same when deciding which business credit card to apply for. It may not affect your decision, but it pays to be fully informed.

Business cards aren't as protected.

Consumer protection laws, such as the [Credit Card Act of 2009](#), make it so that personal credit card activity is closely monitored and controlled. However, the same kind of advocacy that exists for consumers does not so much apply to businesses.

This means that your business credit card issuer could apply higher late fees than you'd receive with a personal credit card should you miss a payment. Additionally, your business credit card

company could throw more curveballs your way than you're prepared for, such as a sudden increase in your APR.

Of course, you may not have to worry -- most business credit card companies issue the same protections to business owners as to consumers simply as good practice. But it's important to spend carefully, closely monitor the activity on your business credit card, and read all of the fine print before applying for a business credit card or accepting an offer for one.

Rewards programs built for business owners.

One of the biggest reasons people use credit cards these days is to earn rewards, in the form of cash back or points that can be used for everything from consumer purchases to travel. Personal credit cards often have great rewards programs, but if you're a business owner, you'll want the perks that are *specifically* geared towards business.

For example, your business credit card may award the most points in spending categories that are typical of business owners, such as computer software, advertising spend, and office supplies. Personal credit cards, on the other hand, typically award the most points for spending in categories like restaurants, gas or groceries. There are plenty of travel perks for both business and personal credit cards depending on the rewards programs.

If you're going to earn points, you may as well earn in the categories where you spend the most. A business credit card will be set up much better to reward you for business spending.

No matter whether you're a business owner with dozens of employees or simply a sole proprietor, if you're regularly making business purchases, you should have a business credit card. Just know what you're getting into -- such as not being protected by the same laws that aid consumers.

A business credit card can help you build business credit and reward you for purchases you'd be making anyway. If that's not a smart business move, what is?