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## Credit Score

Personal credit scores range from 300 to 850 with a score of 680 or higher considered excellent, though each reporting agency uses its own proprietary algorithm to calculate a personal credit score so your score may vary somewhat with each of these ...

Jul. 06, 2015



“What’s your credit score?” For most consumers, the answer to this question is simple – almost everyone can find their personal credit score online.

However, small business owners need to build and monitor their credit as an

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For small business owners, personal credit scores are vital. Once you've built up a history with tax returns and balance sheets, lenders and creditors will look at your personal score – it's every bit as important as your business credit score.

FICO Scores are the credit score most lenders use to determine your personal credit risk. The website [myfico.com](http://www.myfico.com/crediteducation/whatsinyourscore.aspx) has great information about how your personal FICO score is calculated: <http://www.myfico.com/crediteducation/whatsinyourscore.aspx>

Information on your personal credit report includes:

- The total number of credit accounts you have open, including mortgages, credit cards and automobile loans
- The amount you owe on each account and the monthly payments
- Accounts that are properly paid
- “Delinquent” accounts (payments are past due) and “Derogatory” accounts (those which negatively impact your credit score)
- Accounts that have been closed

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## **Business Credit**

Small business owners also have a business credit score based on “trade credits”. Trade, or business credit, is the single largest source of lending in the world.

Trade credit is extended by suppliers who let companies buy now and pay later. Any time delivery is taken of materials, equipment or other valuables without paying cash on the spot, you're using trade credit.

Information about trade credit transactions is gathered by business credit bureaus

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By creating a credit profile for your business, separate from your personal profile, you may be able to access more credit than you could as a consumer. On average, a business owner uses at least 10 times as much credit as a consumer – important as you establish and expand your business.

Besides the additional funds you can borrow, there are other reasons for separating your credit profiles:

1. With a business lender, you're contractually required to pay the loan back. The clear rules and deadlines force you to use the money wisely.
2. If you don't separate the two and your business goes under, you might lose your personal savings.
3. If your business is sued, personal assets could be at risk.
4. Separate business credit makes it easier to identify business expense deductions for tax purposes.
5. Separate business credit protects your personal credit scores.

Ways to keep business and personal credit scores separate:

- Establish your business as a separate legal entity. This could be as an LLC or S-Corp.
- Set up a business checking account. This is an easy way to stay organized and monitor cash flow.
- Build a business credit history. Start by opening a business credit card and always paying on time. Make sure that the card provider reports to business credit bureaus and not to personal ones. Additionally, open credit lines with your vendors and suppliers to build trade credit.

**Overall Credit Score: How to Improve and Manage**

- Keeping your scores strong is actually simple. Here are basic steps you need to

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- Use credit wisely. Avoid the temptation to max out your available credit. If you want to improve your credit score, try to keep your credit usage to around 15 percent of your available limit.

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Income Tax • Small Business

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