

TRANSCRIPT

On Your Terms



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Episode #: 170

How to Avoid This Business Expense Mistake

Sam Vander Wielen:

Hey there. Welcome back to On Your Terms. I'm your host, Sam Vander Wielen. Welcome back to the show if you've been listening already and welcome if you're new here. So, as longtime listeners probably know, I'm hard at work on my book. I'm writing my first book, and I turn in my chapters as I go along. The whole thing is due in January, so it's really getting to be crunch time. More details coming soon, I promise. And I have episodes I can link down below where I've shared some book updates along the way.

But while I put my head down and I focus on writing my book this month, editing the chapters I've already gotten back from the publisher, we'll be revisiting some of your frequently asked questions, your favorite FAQs here about legal and business questions here on On Your Terms throughout November. So, whether you missed them the first time around or you just need a refresher, because you're like me and you like to hear things a couple of times in order to get it, we've curated a selection that's a must listen for any online business owner. I hope you enjoy. All right. Let's jump into it.

So, can you charge business expenses to your personal card and still have it count as a business expense? Or will that get you into trouble?

Hey, it's Sam Vander Wielen here, and welcome back to another episode of On Your Terms, where on Thursdays, I tackle your essential legal questions about starting and growing a legally protected online business in ten minutes or less.

This week, we're talking all about business expenses. Our question this week comes from listener Carol, and Carol asks, "I've set up as an LLC and I'm paying my business bills with my personal credit card. Do I still need to create an invoice from me to my LLC for all the things I've paid for personally throughout the year? These payments are for yearly charges for

things like my domain name, my web page service, my USPS mailbox, my registered agent, business cards, et cetera.”

Okay. So, let’s talk business expenses and how to pay for them. Once you’ve set up an LLC, you have to set up a business bank account. It’s just a regular checking account that basically the bank labels as being an account for your business. And it’s just helpful for delineation process on your part. It’s not any sort of special account or anything like that. Some of them will have different structures or fees to the account, but you can always negotiate that away. That’s something I teach you inside the Ultimate Bundle.

So, that business bank account, that’s the account where any and all money that you make in your business, all of your revenue goes into it. Or if you’re just starting out, it might be where you put what’s called a contribution to your business, like a capital contribution, it’s like the money that gets you started. From that money that’s in your business bank account, that’s what you’ll use to pay for things like your business expenses, like the ones that Carol listed out, your domain name, your software costs, anything you pay to a contractor, equipment, anything like that.

When you set up your business bank account, the bank should give you some sort of business debit card off the bat, and you can use that to charge your expenses to that business debit card and then the money is just pulled directly out of your account. When you’re starting out, it can be kind of hard to qualify for a business credit card. Some of them will require that you have a business bank account for, like, six months before you can apply. So, in the beginning at least, those business bank account debit cards are kind of the next best thing.

You should not though, you should definitely not be paying for your business expenses through your own personal cards or accounts after you’ve gotten everything set up. So, there’s always a period of time in the beginning where you are charging things to your personal card because you haven’t gotten the business account set up yet. And don’t worry, you’ll be

able to capture those as expenses. But after you get the stuff set up, you shouldn't be charging things to your personal card.

So, it's kind of confusing and messy when you charge things to your personal card, because it puts your business at legal risk if anybody ever challenges your LLC. So, we always want to act like an LLC so that we maintain the protection that we think that we're getting from it, and paying for things correctly and cleanly through our business accounts, not through our personal accounts, is one of the major ways that we act like an LLC, and therefore maintain the legal protection from it.

Occasionally you're going to make a mistake, and you'll accidentally charge a business related expense to your personal card. I still do it from time to time. My cards are really, really similar to one another, and every once in a while I make that mistake. It's totally okay to make mistakes, but we just don't want to default to using our personal cards for everything without even trying to get it set up properly to have a business bank account and a business card of some sort.

If you do make a mistake like that, like I do, and accidentally charge things to your personal card, just keep the receipt and record the transaction right away in your bookkeeping software, like QuickBooks, or you should let your bookkeeper or your accountant know, whoever's helping you to prepare, but you want to keep track of it because you will definitely forget in the end.

All right. So, I hope that that was helpful. Let me know down below. Click the link in the show notes to submit your question. I want to know what legal question do you have about operating a legally protected online business. Make sure you submit yours via the link in the show notes below.

Thank you so much for listening and joining me here on On Your Terms. If you want to learn more about business taxes, I've got an episode, Episode number 77. I interviewed CPA Keila of Little Fish Accounting in Episode 77, so you can go ahead and click that in the show notes. And then, you can also go back and listen to Episode 91 of On Your Terms. That's where I took a deep dive into business expenses and really broke down what business

expenses are, what things count as business expenses, what things don't, so you can go back and listen to 91.

And make sure you submit your legal question for an upcoming episode of On Your Terms using the form down below because I love answering your questions and I want this to be so helpful for you.

I hope that you have a great rest of your day, a great rest of your week, and I can't wait to chat with you soon.

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