

Strategies for Paying Yourself as a Business Owner

How can business owners pay themselves?

There are two main ways that business owners can pay themselves: through a **salary** (which can also include hourly wage payments, but we'll just say salary for simplicity's sake) or **owner's draw**. The method you use may be determined by your business structure. Here's the quick rundown of which payment method is available to business owners with some of the more popular business structures:

- Sole proprietorship or partnership: owner's draw is most common, salary may also be chosen
- LLC: if you are taxed as a sole proprietorship or partnership. owner's draw is most common and salary may also be chosen. If you are taxed as an S corporation then salary is required (distributions may be in addition)
- S corporation: salary is required (distributions may be in addition)

What is owner's draw?

Owner's draw refers to a business owner taking funds out of the business for personal use. Literally, this can mean going to an ATM and withdrawing from business checking, writing yourself a check, or simply paying for something purely personal on the business card. Owner's draw is highly flexible, but you don't pay taxes on this income at the time you take an owner's draw, so you should prepare for the taxes you'll owe.

What is salary?

You are probably familiar with salary, so very briefly: salaries are a predictable amount of money paid to employees. It can be a flat rate or an hourly wage. First, you become an employee of your business by completing a W4 and electing your exemptions and opening your withholding tax accounts with the IRS, state agencies, etc. Then, you're ready to set your compensation and receive paychecks. With salary, taxes are remitted at each pay period, avoiding a larger payment at the end of the tax interval. However, salaries do require more paperwork to administer and are only available to people eligible for work in the United States.

Figuring out how much to pay yourself (and/or your business partner)

Whether or not you have a business partner, figuring out your compensation can be a fraught conversation. Here are some questions to guide you. Remember to record your decisions in your governance document!

- What are the most important factors to us for compensating ourselves – business operating costs, ownership percentages, other values?
- How often and how much do we expect to get paid?
- Are we adjusting our compensation if the business is struggling? Thriving?