

How to Pay Yourself as a Business Owner



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Introduction

Profit is at the core of every business.

While certain entities, like benefit corporations, place a defined emphasis on the greater good and many companies prioritize giving back to their communities, profit remains a key goal.

As a small-business owner, you are in a unique position to enjoy the fruits of the hard work and shrewd decisions made by you and your organization as a whole. However, choosing how, when and what to pay yourself can be an especially complex decision.

Keep reading to learn about the options you have for compensation as well as the many factors involved in setting your pay as a small-business owner, from tax implications to the potential of operational impact on your business.



Foundational strategies for self payment

There are a few established and accepted options you can consider for drawing an income from your business, depending on the specifics of how it is structured. They are:

A draw

A draw refers to a business owner paying themselves directly out of available business funds. This payment type can be structured — a draw of a specified amount, taken at a regular interval — or paid on an ad-hoc basis. Draws are undoubtedly an advantage of owning a business, as they generally aren't available to employees or consultants. The amount you can draw is based on the company's profits and losses, as well as your own investment into the business.

If you operate an LLC as the only member, or run a sole proprietor business, you would pay yourself through draws. In regulatory terms, there is no distinction between yourself as an individual and the business, so a salary isn't an option. If you own another type of business, you often can, but never need to, elect to take a draw.

In partnerships, LLCs with more than one member and S corporations where you are a shareholder, a related concept

applies. You will receive a distributive share, which represents your part of the company's combined credit, deductions, gains and losses based on your level of ownership.

Draws can create issues for a business if the owner isn't careful. You may have the power to draw out a significant sum from the business, but that could take away crucial cash flow from your company and harm its stability. We will discuss the issue in greater detail later on, but it is important to keep this fact in mind.



Draws and taxes

One important distinction: A draw is not taxed, because taxes are already paid on the business's profits. Distributive shares are taxed, however. You do not avoid taxes completely with a draw, but having that money taxed through your business instead of at the personal level may be advantageous. This is a topic to discuss with an accountant or tax advisor familiar with your business and personal financial position.

A salary

A salary is a familiar concept to most: A standard amount of pay, provided on a regular schedule, with the option to automatically withhold taxes and contributions.

This strategy for paying yourself is generally relevant and accessible if you are an employee of the business, perhaps in an executive role or simply as the final decision-maker without a defined C-suite title.

You own the business, so you have the freedom to set your own salary. The payment structure is highly defined, but the amount of compensation is not. Just as is the case with draws, you need to consider your company's financial health and wellbeing along with your own.



Choosing your compensation level as a small business owner

The amount of money you earn in compensation is a critical factor in both your own financial stability and that of your company. Regardless of whether you take compensation in the form of a salary, draw or distributive share, the amount must take these two critical concerns into account.

You should consider all aspects of your company's finances when setting your compensation level. In general, you need to address every business expense before paying yourself. Failing to do so can leave

you without a viable business and, therefore, a source of income in the future. Payroll, expenses, contracts and similarly foundational costs have to be taken care of before you can be paid, for the sake of continued operations.

The nature of your business is also an important element. For businesses with consistent revenue and solid profits, a regular draw or salary makes sense. For companies that have more fluctuations in their revenue, such as seasonal businesses, a standardized and consistent payment may place

undue stress on the business. Instead, consider mapping profit and compensating yourself at times when it makes the most sense for the business as a whole.

The potential for different tax implications should the money arrive in the form of a draw, share or salary is also worth considering — and can be so specific to your unique situation that advice from a trusted and accomplished professional is often the best course of action.



Strategies for setting your compensation

You can consider a number of avenues for arriving on a figure for compensation, including:

- Researching what other small-business owners earn from companies that are comparable to yours.
- Calculating all costs and expenses, determining how much to set aside to fund future growth and protect against adverse events and economic conditions, then paying yourself the rest.
- Comparing your personal financial needs with that of your business and striking a balance between the two, keeping in mind the vital need to fund your business appropriately.

In all situations, you should regularly assess any changes in your company, from increased financial needs to a rise in profits. As the owner, you have the power to adjust your compensation accordingly. Doing so in a careful manner positions both you and your business for a better chance of financial security.



A dependable business banking partner

No matter the type of small business you operate, you need secure, easily accessible accounts to store, transfer and manage your company's money. Comerica Bank is ready to assist you in choosing the options that make the most sense for your unique needs. To learn more, [get in touch with our team](#) today.



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