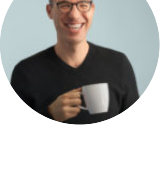


Finances and Taxes

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Are You the Boss? This Is How You Pay Yourself as a Small Business Owner



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When you're the boss, getting your first paycheck can be a very meta experience. Here you've sacrificed so much to [get your business started](#), and now you have to take money out... for yourself?

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Ready to get paid?

Rest assured, this isn't as crazy as it seems.

That pay stub is a reflection of all the hard work it took to bring your business to life. And when you get to enjoy that moment, it can be an amazing thing to experience. In this post, I'll show you exactly [how to pay yourself](#) when you're the one in charge.

1. Determine Your Business Type

[Your business entity](#) is where it all begins. In fact, it's the foundation for the entire payroll process, and will help point you to the payment style that's right for you.

Already know your entity? Bravo, scroll down to the next step.

If not, this overview will help you get a good idea of what options are out there. Before finalizing your decision, remember to schedule some time with your accountant to help explain the ins and outs of each kind.

2. Figure Out the Best Payment Method

Now, think about how you'd actually like to pay yourself.

This part depends on a few factors like your entity type, business plan, and years in operation. There are two main types of payments you should know about.

A. Owner's Draw

Most small business owners pay themselves through something called an [owner's draw](#). The IRS views owners of LLCs, sole props, and partnerships as self-employed, and as a result, they aren't paid through regular wages. That's where the owner's draw comes in.

It's important to note that draws aren't taxed at the time they're taken out. However, be prepared to pay taxes on them when you file your individual return.

Which business entity is it suited for? Sole props, LLCs, and partnerships. If you're an S corp, you'll also have the option to take a draw in addition to your regular salary.

B. Salary

Salaries are set, recurring payments that are taxed by the state and federal governments. Own a corporation and involved in the day-to-day operations? Then the IRS will expect you to take a salary — not an owner's draw.

Which business entity is it suited for? C corps and S corps.

Pro tip: Whatever payment style you choose, keep in mind that you will eventually have to pay taxes on that amount, if not immediately, then at some point down the road. It's really crucial to plan for this ahead of time so you're not stuck with a giant tax bill when you least expect it. Many [payroll solutions](#) will handle this for you automatically, so do your research upfront.

3. Select an Amount

Once you've determined the right type, your next job is to calculate how much to give yourself. Wait, I can't just pick any number? Well, not exactly. You want to pay yourself an amount that ties to your duties, and also sets your business up for long-term success. Here's a handy guide to help you figure out just [how much to pay yourself](#).

Spend some quality time with your [profit & loss \(P&L\)](#) statements to see how much net profit you're raking in each month. Then, deduct your own pay from that amount — not the total revenue. This is because you want to pay yourself from the amount left over after you tackle your important business expenses, like supplies, rent, paying your incredible team, and everything else needed to keep your venture running smoothly.

The IRS also requires that all employer compensation is considered [reasonable](#), which just means that it should match the amount you'd make if you were working in the same role at another company.

If you feel like you wear a million different hats, try to pick out the most common responsibilities you take on, and then determine how much you would have to pay someone if you outsourced those tasks. This is sometimes referred to as your "true wage," and it's truly cool to think about your job in such a multifaceted way.

Take a look at [this Income Statistics guide](#) from the Small Business Administration to help you get a quick understanding of what your total should be.

4. Pick a Payroll Schedule

If your business has at least one employee (including yourself!), you need to think about how often you want to pay yourself. In the U.S., the most [popular payroll schedules](#) are twice a month, every two weeks, and weekly.

Most states require that you follow a basic calendar, so find where your state falls on this [chart from the Department of Labor](#). The basic rule is that you can always pay yourself more often, but never less than your state's particular schedule.

5. Get Your Paycheck

Okay, you're raring toward the finish line: **Now it's time to actually get paid.** This is a huge milestone for your business, so use it as a moment to celebrate all you've accomplished.

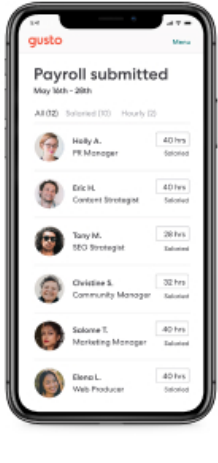
Getting paid can be as easy as writing a check and depositing it into your personal bank account, or even quicker if you go the direct deposit route. Direct deposit simply means that the money is dropped straight into your bank account.

Before picking between the two, make sure you know exactly when you'll have access to the amount so you can properly plan ahead.

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Ready to get paid?

Paying yourself for the first time isn't just about earning money — it's about earning money from the very idea you believe in. And when that day finally swings around, you can sit back, relax, and gloriously watch as all your sweat and sacrifice pays off.

This article originally appeared [here on the FreshBooks Blog](#).

Tags:

Paying Yourself

Payroll

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Tomer London Tomer is the co-founder and Chief Product Officer of Gusto. He is responsible for the development and execution of the product vision — reimagining how modern payroll, benefits, and compliance should operate. [Read more](#)

Quick note: This is not to be taken as tax advice. Since tax rules change over time and can vary by location and industry, consult a CPA or tax advisor for specific guidance. [Find an accountant](#)

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