



# Paying Yourself

More In File
Individuals
Businesses and Self-Employed
Small Business and Self-Employed
Employer ID Numbers
Business Taxes
Reporting Information Returns
Self-Employed
Starting a Business
Operating a Business
Closing a Business
Industries/Professions
Small Business Events
Online Learning
Large Business
Corporations
Partnerships
Charities and Nonprofits
International Taxpayers
Government Entities

The procedures for compensating yourself for your efforts in carrying on a trade or business will depend on the type of [business structure](#) you elect. Below are topics that frequently arise when new business owners ask the Internal Revenue Service questions about paying themselves.

- [Corporate officers](#)
- [Partners](#)
- [Dividend distributions](#)
- [Form 1099-MISC or Form W-2](#)
- [Treating employees as nonemployees](#)
- [Shareholder loan or officer s compensation?](#)
- [Reasonable compensation](#)

## Corporate officers

An officer of a corporation is generally an employee, but an officer who performs no services or only minor services, and who neither receives nor is entitled to receive any pay, is not considered an employee. Refer to "Who Are Employees?" in [Publication 15-A, Employer's Supplemental Tax Guide](#) [\[PDF\]](#) (PDF).

## Partners

Partners are not employees and should not be issued a Form W-2 in lieu of Form 1065, Schedule K-1, for distributions or guaranteed payments from the partnership. Refer to [partnerships](#) for more

information.

Dividend distributions

Any distribution to shareholders from earnings and profits is generally a dividend. However, a distribution is not a taxable dividend if it is a return of capital to the shareholder. Most distributions are in money, but they may also be in stock or other property. For information on shareholder reporting of dividends and other distributions, refer to [Publication 550, Investment Income and Expenses](#).

Form 1099-MISC or Form W-2

You cannot designate a worker, including yourself, as an employee or independent contractor solely by the issuance of Form W-2 or Form 1099-MISC. It does not matter whether the person works full time or part time. You use [Form 1099-MISC, Miscellaneous Income](#) [\[PDF\]](#) (PDF) to report payments to others who are not your employees. You use Form W-2 to report wages, car allowance, and other compensation for employees.

Treating employees as nonemployees

You will be liable for social security and Medicare taxes and withheld income tax if you do not deduct and withhold them because you treat an employee as a nonemployee, including yourself if you are a corporate officer, and you may be liable for a [trust fund](#) recovery penalty. Refer to [Publication 15, Circular E, Employer's Tax Guide](#) for details about the trust fund recovery penalty or [Independent Contractor](#) for more information on employee classification.

Shareholder loan or officer's compensation?

A loan by a corporation to a corporate officer should include the characteristics of a loan made at arm's length. That is, there should be a contract with a stated interest rate, a specified length of time for repayment, and a consequence for failure to repay the loan. Collateral would also be an indication of a loan. A below-market loan is a loan which provides for no interest or interest at a rate below the federal rate that applies. If a corporation issues you, as a shareholder or an employee, a below-market loan, the lender's payment to the borrower is treated as a gift, dividend, contribution to capital, payment of wages, or other payment, depending on the substance of the transaction.

See "Below-market interest rate loans" under Employees' Pay / Kinds of Pay / Loans or Advances in [Publication 535, Business Expenses](#) for more information.

Reasonable compensation

Because an officer of a corporation is generally an employee with wages subject to withholding, corporate officers may question what is considered reasonable compensation for the efforts they contribute to conducting their trade or business. Wages paid to you as an officer of a corporation should generally be commensurate with your duties. Refer to "Employee's Pay, Tests for Deducting Pay" in [Publication 535, Business Expenses](#) for more information. Public libraries may have reference sources that provide averages of compensation paid for various types of services. The Internal Revenue Service may determine that adjustments must be made to the income and expenses of tax returns for both the corporation and an individual shareholder if the officer is substantially underpaid for services provided.

Related Topic

- [Businesses with Employees](#)

Page Last Reviewed or Updated: 16-Oct-2020

 Share

 Print

- Our Agency
- Know Your Rights
- Resolve an Issue
- Other Languages
- Related Sites



Privacy Policy  
Accessibility