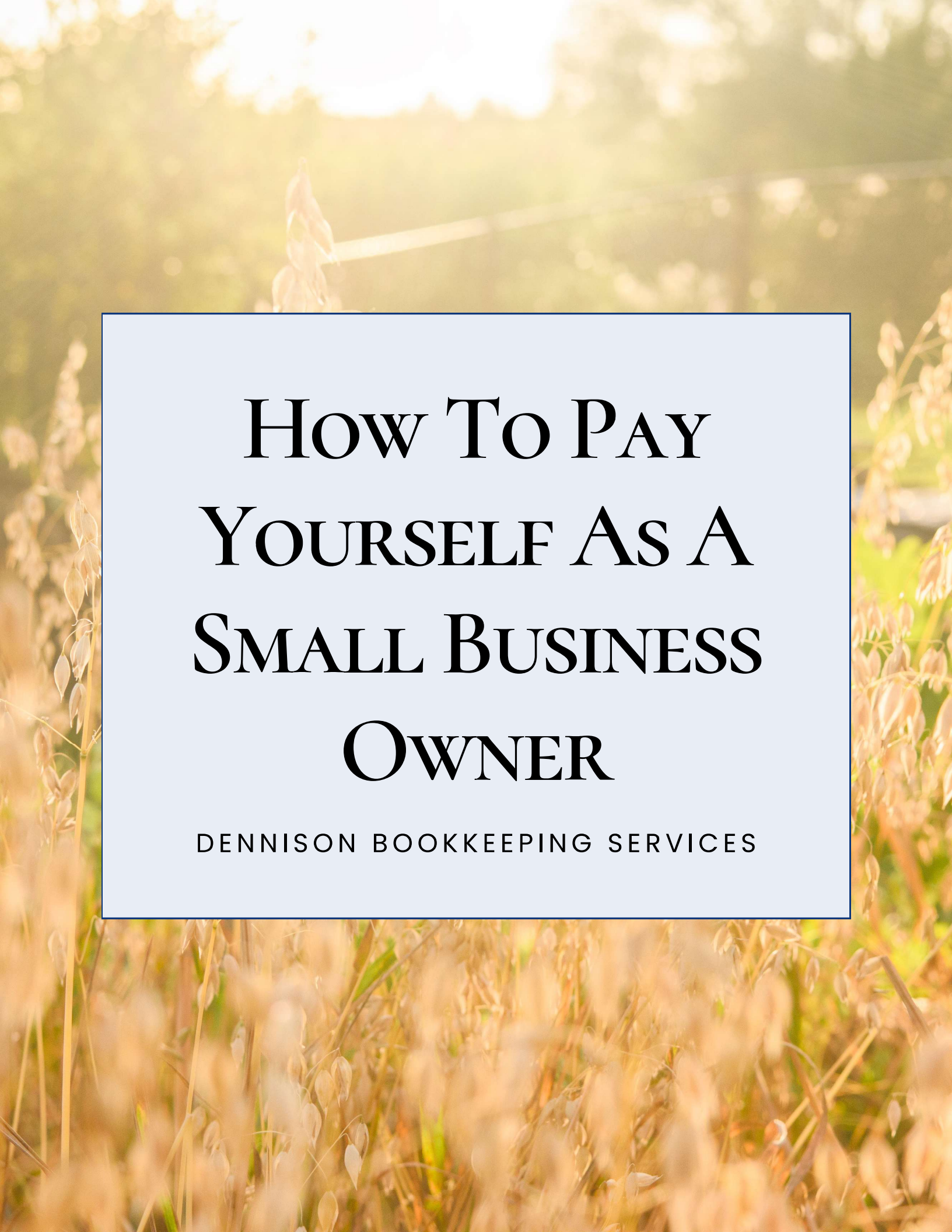




How To Pay YOURSELF AS A SMALL BUSINESS OWNER

DENNISON BOOKKEEPING SERVICES

HEY, IT'S CHEREÉ!

Paying yourself should feel exciting...not panic-inducing and leave you feeling like you've somehow just committed a crime against your own business!

In this guide, I'll cover how owner pay works based on your business type, the difference between owner draws, distributions, payroll + guaranteed payments, and how to correctly record owner pay in your books.

If you're a small business owner who's ready to quit second-guessing how to pay yourself, keep reading!

NOTE: *This guide is for educational purposes and is not intended as legal, tax, or financial advice. Please consult a qualified professional for your business.*



A QUICK NOTE ON PAYING YOURSELF

There's a reason every bookkeeper stresses the importance of paying yourself correctly...

A sole proprietor pays themselves differently than an S corp owner.

A partnership generally has different rules from a single-member LLC.

That's why this guide is *not* intended to replace advice from your accountant, but rather to help you get *clarity* on what might apply to you + your business, what systems you need to have in place, and what mistakes to avoid based on how your business is set up!



SOLE PROPRIETORS + SINGLE-MEMBER LLCs

If you're a sole proprietor or a single-member LLC taxed like a sole proprietor (*super important distinction here*), you'll generally pay yourself through an owner draw.

That's basically a fancy way of saying you'll transfer money from your business bank account to your personal account.

WHAT AN OWNER DRAW IS NOT:

- A business expense
- A tax deduction
- "Tax-free" money

Regardless of how much (*or how little*) you transfer to yourself, your taxes are still generally based on your business's net income.



PARTNERSHIPS + MULTI-MEMBER LLCs

Partners in partnerships or multi-member LLCs taxed as partnerships may be paid via distributions or guaranteed payments, and they are also taxed based on their profit allocation.

Distributions → Money taken out of the business by a partner. Carefully track distributions per partner; distributions in excess of a partner's basis may trigger a capital gain.

Guaranteed Payments → Payments determined without regard to partnership income for a partner's services or capital provided. Generally tax-deductible by the partnership and treated as ordinary income for the partner.

Profit Allocations → Your share of the partnership's income or loss, usually reported on your Schedule K-1 and passed through to your personal income tax return.



S CORPORATIONS

If you've elected to be taxed as an S corporation and you work in your business, you may pay yourself in two main ways: **W-2 wages** and **shareholder distributions**. You'll also receive a Schedule K-1 reporting your share of the business's income, deductions, credits, and other tax items.

W-2 Wages → If you're an owner-employee, you need to pay yourself a **reasonable salary** via payroll. The IRS generally evaluates whether a salary is reasonable based on factors like what a comparable business would pay someone with similar experience to perform the same duties.

Shareholder Distributions → If you've paid yourself a reasonable salary and the business has enough profit + cash flow to support it, you may also take shareholder distributions. Distributions are not subject to self-employment taxes, but they may still have tax consequences and need to be tracked.

THE ESTIMATED TAXES CONVO:

TAXED AS A SOLE PROPRIETOR

Since sole props generally don't have taxes automatically withheld, you usually need to set aside money for income + self-employment tax.

This could mean setting up an estimated tax savings account and transferring a % of each owner draw to it, or paying your estimated taxes directly from your personal account. If you pay your estimated taxes from your business account, make sure to record this as an owner draw, *not as a business expense!*

REMINDER: Your taxes are based on your business's net income, not just how much you've paid yourself through owner draws.

THE ESTIMATED TAXES CONVO:

TAXED AS A PARTNERSHIP

If you receive guaranteed payments, you'll need to set aside money to pay estimated taxes on them (*and possibly self-employment tax depending on the nature of the payments*).

Regardless of whether or not you received guaranteed payments, you'll also need to account for estimated taxes on your pass-through income (*your share of the partnership's income/loss*).

If partners take distributions to cover their tax bills, track this! And remember, each partner has to pay the IRS/state(s) personally.

THE ESTIMATED TAXES CONVO:

TAXED AS AN S CORP

Some good news about your W-2 wages as an S corp owner-employee: If you set up sufficient withholding, you may not have to worry about paying estimated taxes on that income (*it's already handled when you run payroll*).

However, your S corp pass-through income (*shown on your K-1*) usually doesn't have automatic withholding, so you'll likely need to plan for that with additional withholding or estimated tax payments.



LET'S CONNECT!

I'm passionate about helping small business owners understand their numbers through monthly bookkeeping, increase profits and streamline business processes, and lower their tax liabilities.

WWW.DENNISONBOOKKEEPING.COM