How do I pay myself?

Answer: It depends.

It depends on what type of tax entity are you an owner of?

Sole proprietorships: Due to the fact that sole proprietors pay self-employment tax on all of their business income, a sole proprietor can take draws from their business as needed, or as the funds are available. You are *not* considered an employee of your company. Therefore, none of the amounts that you draw from your company are considered taxable wages. And, none of the amounts you take as draws reduce your net profit from your business.

Single-member LLC – (and not taxed as an S-corporation): You compensate yourself the same way as a sole proprietor would. You take owner draws and pay self-employment tax on the net income from your business.

S-corporation: As an owner of an S-corporation, you are considered an employee of the company. The IRS requires that *if* you take or receive funds from the company, you must pay yourself a reasonable salary or wage. If there are available funds in excess of your deemed reasonable salary or wage, these amounts can be distributed as shareholder distributions.

Note: For your wages – you pay FICA payroll tax (this is similar to self-employment tax for a sole proprietor or single-member LLC owner). This tax is 15.3%. You do *not* pay this tax on shareholder distributions from an S-corporation.

C-corporation: You are considered an employee of a C-corporation. Therefore, if payments are received from the company, you should receive them as compensation. You could also receive dividends from the C-corporation.

***Note:** For sole proprietors and single-member LLC owners. It is extremely important to understand how your income is taxed – and that your business' net profit is subject to an additional 15.3% tax (self-employment tax), in addition to Federal and State income tax. It is helpful to set aside a percentage of your net earnings to assist with paying your taxes on this income.