



**Worksheet**

# **Calculating the salary you deserve**

# Calculating the salary you deserve

As a business owner, when you're thinking about your business expenses, your own salary is one of the easiest items to overlook. However, paying yourself is extremely important for you and your company. If you are not allocating funds for your own salary, your books will not accurately reflect the health of your business.

## When can you start paying yourself a salary?

### 1 When your company has sustained revenue

Your company has proven to be a sustainable and profitable business with reliable goods and services

### 2 Your revenue projection looks healthy after using the following calculation:

$$\begin{array}{r} \text{Projected income} \\ - \text{Projected expenses} \\ \hline = \text{Projected revenue} \end{array}$$

### 3 When your business is in the black

A business that is "in the black" is making a profit or, at the very least, not in debt

## Checklist for possible tax deductions



As a business owner, calculating your taxes is not only a smart idea, but part of the entrepreneurship process. You should be keeping track of every business and/or shared expense, maintain organized records, and hire a reliable accountant who can successfully guide you and your business to the next level. For more on what you can claim when an expense is used for both personal and business use, check out [this guidance from the IRS](#).

### Personal expenses

- Medical bills
- Mortgage interest payments

### Business expenses

- Salaries and employee benefits
- Advertising
- Business insurance
- Taxes
- Office expenses

## Checklist for calculating your salary as a business owner

### 1 Have a full understanding of your monthly net income

**Gross revenue**

- **Expenses**  
(personal & business)

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= **Net income**

### 2 Figure out how to save for taxes ahead of time

A safe starting point is

**30%**

### 3 Know your business debts, and clear these debts ASAP starting with the smallest account

Whatever is left after clearing your debts can become part of your salary

### 4 Consider and calculate how much money you need to set aside for your future retirement, vacations, and overhead costs like healthcare, office supplies, and utilities

In order to reap the rewards of entrepreneurship you want to pay yourself a salary, in addition to covering your bills

## How different business structures are paid



#### S corporation

- Business owners take a salary
- S corporation's net income and distributions are reported on the owner's personal tax return



#### C corporation

- Corporate income tax must be paid
- Business owner shareholders receive a dividend when the corporation's board approves it
- Dividend income is also reported on shareholders' personal tax returns



#### Sole proprietorship

- Business sole proprietors are paid by drawing money from their business
- Pay income and self-employment taxes on their profits
- Make estimated tax payments quarterly to avoid underpayment and penalty



#### LLC

- Business owners can elect to take a draw and be taxed as a sole proprietorship
- May also elect to be taxed as a C corporation or S corporation

## Tips on how to set your salary as a business owner



1. **Consistently map out** your expenses, overhead costs, and future financial goals
2. **Understand** your business structure

## Conclusion

One of the most important benefits of paying yourself is that you are taking care of the most valuable player in the company: you. The willingness to invest in yourself demonstrates a high level of commitment and confidence in the health of your business, which also looks good to investors, banks and other finance companies.

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## Key terms to know

### Personal expenses

Also known as personal deductions, are items which taxpayers are entitled to claim as tax deductions.

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### Business expenses

Are expenses that are ordinary and necessary for running your business and are tax deductible. They can lower your taxable income and reduce the amount of tax you owe.

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### Shared expenses

Are purchased items that are used for both business and personal use. In this case, you can claim a deduction for the portion of the item that is for your business. For example, if you purchased a printer that is used for business 80% of the time, you can deduct 80% of the cost as a business expense.

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### Owner's draw

Is when you pay yourself with funds from company accounts. The funds may come from capital contributed to the company or they may come from profits generated by operations.

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### Revenue projection

Is an estimate of how much your business will bring in over a set period.