

EPISODE 6:

HOW TO PAY YOURSELF AS A BUSINESS OWNER

WITH MORGAN DEBAUN

We all become entrepreneurs to build things, pursue a mission we care deeply about, and to feel real freedom. Of course, that includes financial freedom. But with so much going back into our business, especially in the early days when the name of the game is growth, when can we actually pay ourselves? In this episode of WorkSmart, let's break down where you need to be before enjoying the fruit of your hard-earned labor.

MORGAN'S STORY

For the first three years of Blavity, Morgan didn't take a salary. She was young and able to keep expenses low. She also made sure the business covered things like travel and conferences. But the reality is, many of you are single moms or caretakers who can't afford to put everything back into your business for years on end.

SO, WHAT ARE MY OPTIONS?

You've got two: Owner's Draw and Traditional Salary. Owner's draw is when you transfer income from your business account to your personal account. Essentially, you're writing yourself a check. Easy enough, right? But work with an accountant to make sure you've got enough set aside for taxes. The last thing you want is to take out too much and suddenly have a tax bill with no money to cover it.

Now let's talk traditional salary. A traditional salary is when you pay yourself a regular, consistent salary just like any other employee. How much you take out ultimately depends on your cash flow, but it should be reasonable. To give you an idea, the average business-owner takes home about \$69,000.

LET'S CRUNCH SOME NUMBERS

Before sitting down to withdraw, make sure you're paying yourself out of your net balance. That's your business income after you deduct all business expenses (think rent, employee salaries, marketing spend, equipment, etc.).

Because it typically takes a few years for your business to turn a profit, Morgan recommends sticking with your day job a bit longer so you can reinvest your salary and grow as quickly as possible.

PLAN TO PLAN

Remember that every dollar you withdraw is a dollar you can't spend on growing your business. So stay conservative, especially towards the beginning. Only take out what you truly need and invest the rest. And make sure your behavior with money falls in line with the goals you set for your business. In other words, balling out in the early days probably isn't the best choice.

And above all, as you start to grow your business, always have a plan for how much in profit you'll need to pay yourself the salary you want. Start goal-setting now and work towards it. Starting a business from the ground up is likely the hardest work you'll ever do. It's tough to prolong the paycheck, but when you do cash out, the money will feel that much sweeter.

HOMEWORK TIME

This week, write down the profit you're currently making and what's ideal for you to be taking home. Ask yourself – how much more money in profit do I need in order to have the income that will make me feel successful? Having goals is critical to achieving them. Plus, planning out measurable markers helps you figure out when you're falling off-track.

Remember: work smarter, not harder.

GLOSSARY

NET BALANCE:

Your business's income after you've deducted all business expenses.

REVENUE:

The total amount of income your business has generated before you deduct all business expenses.

OWNER'S DRAW:

Pay yourself by transferring money from your business account to your personal account, typically on a less consistent basis.

GLOSSARY CONT.

TRADITIONAL SALARY:

Pay yourself a fixed amount on a regular basis, just like any other employee.

RESOURCES

CLICK FOR MORE INFO

QUICKBOOKS

FRESHBOOKS

CHECKLIST: HOW TO START PAYING YOURSELF

This list outlines key steps that'll benefit you on your path to paying yourself.

CHECKLIST: HOW TO START PAYING YOURSELF

- Open a business account
- Keep your business and personal accounts separate
- Assess your business and choose between an owner's draw and a traditional salary
- Calculate your profit after all expenses are deducted (this is called your net balance)
- Pay yourself out of your net balance
- Remember to stay conservative and only take out what you need
- Align your spending habits with your long-term business goals
- Consult an accountant and use tools like QuickBooks to remain confident in your numbers
- Have a plan and think long-term – know how much you're making and what you need to be making in order to withdraw a salary that makes you feel successful

OWNER'S DRAW

TRADITIONAL SALARY

Transfer income from your business account to your personal account

Pay yourself a fixed amount on a regular basis just like any other employee

Taxes aren't automatically deducted, so you'll need to pay taxes on what you take out

Your taxes are automatically deducted from your salary

Great if you don't feel comfortable with your projections or taking out a regular salary

Easier for tracking your expenses and managing cash flow

Great for a lifestyle business

Necessary for venture-backed startups

Great for the early days of a business when taking out consistent cash is more difficult

Great if you're aiming to sell your business one day

Recommended if you're running the businesses day-to-day operations and you aren't looking to sell

Recommended for most businesses because it's easier to plan your income, personal life, and it's easier for your business to adjust

Pay yourself out of your business profits (not revenue)

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