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**Don’t Shortchange Yourself: What an Entrepreneur’s Pay Should Cover**

Being in business means taking a lot of risks, especially financially, and as an entrepreneur, you deserve to be rewarded for those risks. Your pay is just one of the many benefits of your self-employment. But it’s not like the pay you get as an employee; it needs to be more comprehensive than that.

**Getting Paid**

The two major ways entrepreneurs can take money from their businesses are through draws or by receiving a paycheck.  If your business is incorporated, you’ll take a paycheck; if your business is a sole proprietorship or a partnership, you’ll take a draw.

Here’s a list of five items to make sure you have covered in your pay:

1. **Reasonable Compensation.**

If you were doing the same work for a company that hired you, what would your pay be?  Are you making at least market equivalent or better?  A lot of times, as entrepreneurs, we tend to focus only on this piece of our compensation when we set our pricing, and that’s a big mistake.

There are also tax implications of paying yourself too little (to avoid payroll taxes if you take a paycheck) or too much.

1. **Retirement plan**

When you work for yourself, no one is going to fund your retirement for you.  Although the Social Security program helps, it’s up to you to set additional money aside for a comfortable future when you can’t or don’t want to work anymore.

1. **Benefits**

Employees get vacations, health insurance, and bonuses; and you should too.  This should be part of your compensation package as an entrepreneur, and there are many tax advantages as well.

1. **Taxes.**

You need to cover taxes that will be incurred on your pay as well as your business profits. This includes:

* Normal withholding for federal income taxes, state and local income taxes, Medicare, and social security. If you receive a paycheck, these will be taken out of your paycheck, but they may not be enough because they don’t consider taxes on your profits. If you take a draw, you may not have withholding, but you will need to factor in self-employment taxes.
* Taxes on your profits. For sole proprietors, partnerships, LLCs, and S Corps, your taxes will be figured on the profits of your business when you complete your federal income taxes. They will “pass-through” from your business to your personal return. Don’t let this part surprise you!
* State business taxes. If your business does business in multiple states, you must file a tax return for each state. Many of them collect taxes based on flat corporate fees, the revenue you earned in that state, state payrolls, and/or the value of property owned in that state.

Check with your tax advisor so that there are no surprises in your tax bill for your business or your personal returns.

1. **Profit.**

As an entrepreneur, you take extra risks when you own your own company, and you should be compensated accordingly.  Your capital is tied up in your business and should be earning a good return in addition to your regular salary or draw.

**Complete Compensation**

Your compensation should include all of the above components.  If it doesn’t and you feel like you can’t afford to pay yourself that much, then your pricing might not be reflecting all of these items correctly, you might have a volume problem, or your business model may need some adjusting.

It’s normal to take a smaller paycheck the first few years as the business is growing, but if you’re still doing it after several years or constantly have cash flow issues, then something may be wrong.

If you’d like our help in this area of your business, please reach out and let us know.

Make sure your future is bright and financially secure by considering all five items in your entrepreneur compensation.

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