**PAYING YOURSELF**

As a new business owner organized under a DBA, you are either a sole proprietor or partner in your business. The IRS doesn't consider sole proprietors and partners in partnerships employees; you are business owners.

Sole proprietors and partners may be liable for self-employment tax, which is the equivalent of Social Security tax that employees pay. There is a self-employment tax deduction which says that you may deduct one-half of your self-employment taxes from your personal income taxes, which will slightly reduce your income taxes. But, as a sole proprietor, usually any net earnings are subject to this self-employment tax, which currently runs about 15%.

If you're a sole proprietor, it's entirely up to you how much profit you remove from your business and spend on personal items. You and your company are considered the same economic entity. If you're in a partnership, the situation is more complex, because one partner might not like seeing the other partner raid the partnership piggybank. In partnerships and LLCs with multiple owners (and especially investors), how profits are allocated is set by the articles of organization.

##### Look at the Books Before You Pay Yourself

Before you go paying yourself, know your business books well. How much money is coming in? What expenses do you need to budget for? One bookkeeping tip is be sure you accurately record any withdrawals of money removed from your business for personal purchases. Do this whether you remove a flat salary or some percentage of the earnings or some more complex withdrawal. In fact, if you haven't already done so, open a separate checking account for your business. This is essential for you to know how well your business is doing. You want to know how much money your company earned before compensating yourself for your service and work within the business.

Next, you also want to know how much you've received as personal compensation for your efforts in the business. To know how well you're doing, you must be able to distinguish between business expenses and personal expenses. By accurately recording all your income and all your expenses, you see how much your company earned. That amount should compensate you for your time and effort in running the business.

##### Don't Forget About Taxes!

One expense many business owners miss in the "paying yourself planning" is taxes. As a business owner, you're responsible for paying taxes on your profits. You usually must make estimated tax payments to the IRS (and state revenue departments) on your earnings.

Unlike most expenses, taxes are only incurred when you show a profit. But showing a profit is only a function of your revenue and your expenses. So when you brought in $1,000 and incurred a total cost of $700 to do so, you earned $300. If taxes are owed on this $300, be sure to budget or set aside some money for that obligation as well. You don't want to find that you did great last quarter earning $10,000, but then realize that you now owe $3,000 in taxes to the IRS you haven't retained. So planning and cash budgeting is crucial.

Once you have a handle on how much your company earns regularly and what your regular costs are, you'll invariably have a good idea of how much money should be retained within your company.