



Paying Yourself: A Guide for Sole Proprietors

Why It's Important & Tips on
How to Pay Yourself

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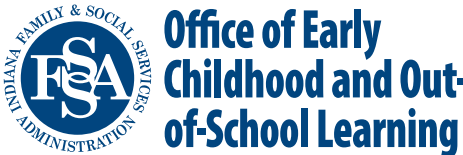
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Introduction

Too many child care owner/operators and owner/directors don't see a regular income from their business. You work hard, but don't pay yourself regularly. Instead, your income sits in a checking account waiting until there's enough confidence (and sometimes enough money) to provide the pay that you earn, and that you and your family need and deserve.

As a staff person of the child care program, you can and should pay yourself regularly. In this document, we are going to provide information about why, how, and how much you should pay yourself. Additionally, this guide will introduce you to the next steps you should consider for your business after you have begun to pay yourself.

Why should I pay myself regularly?

There are many reasons to pay yourself regularly, but we are going to point to the two most significant ones right now.

Regular pay is better for you and your family. Yes, you want to keep your child care business afloat, but you also need money to pay your *own* expenses and costs — rent or mortgage, utilities, food, etc. — which must be paid on a regular basis. Having the cash on hand to pay them will help you keep up with your bills and avoid using credit cards until you *do* pay yourself.

How do I pay myself?

We first recommend setting up a **business** bank account. This will keep your business and personal money separate, making it clear when you are paying yourself and when money is staying within your child care business. Opening a business checking account can be easy, but be sure to ask about monthly and other fees which can add up quickly.

Now that you have your business account, you will decide how you will pay yourself. There are two recommended methods:

Write a check to yourself or make a transfer into your personal account for the pay period.

Once your accounts are set up and running, all you really need to do to get paid is transfer money from your business account into your personal account. Instead of receiving a salary, this is called “a draw.” You effectively write a check to yourself. You can do that by writing a check, sending a transfer, or making a direct deposit.

Next, track it. If you're using accounting software, you can mark transactions to yourself as an “owner's equity” or “disbursement.”

Become a W-2 employee (only for corporation business structures).

After you've begun to pay yourself, it may be a good time for you to think about what business structure benefits you the most. Certain business structures, such as an LLC, provide another layer of separation from your personal and business identities for liability purposes. Becoming a W-2 employee of your corporation can also provide tax benefits. It is advised that you speak with an attorney if you are interested in this business structure.

How much should I pay myself?

To determine how much you should pay yourself, we recommend drafting a monthly budget and tracking your actual revenue and expenses to understand how much you typically take in and pay out in expenses for the month. That will help you visualize what impact paying yourself may have on your budget.

An additional way to determine how much you should pay yourself is to understand your program's cash flow. Your cash flow helps you understand how much you are actually taking in versus paying out each month, and how that amount fluctuates. Performing the cash flow projection will allow you to decide how much you should pay yourself each month, because it may vary.

Paying yourself should be treated just as any other necessary expense line item — it is essential to business operation. If you are hesitant to pay yourself because the program is not making a profit or has a very slim profit, you should evaluate all your expenses and see if there is room to cut down other costs, or think of ways that you can increase revenue.

How do I get started?

Making the decision to pay yourself is the first leap. After that, these are the basic steps to 'make good' on your promise to yourself:

- 1 Open a business bank account.
- 2 Know what is coming in and going out. Use your budget and cash flow to help inform the amount that you will pay yourself.
- 3 Commit to an amount, even if it is low.
- 4 Keep track of your draws, even on a simple piece of paper or spreadsheet.
- 5 Be mindful of your anticipated tax obligations and set some money aside to cover taxes.