

Paying Yourself: Owner's Draw vs Payroll

Use this to get oriented, ask better questions, and arrive at your accountant's office ready to make a real decision.

One of the first things owners get wrong is thinking about their own pay the same way they think about paying employees. It's not the same. How you take money out of your business depends heavily on your entity type and getting it right (or wrong) can affect your taxes, your retirement options, and even your ability to qualify for a mortgage.

There are two primary methods: the owner's draw and payroll (W-2 salary). Here's how to think about each one.

| FACTOR | OWNER'S DRAW | PAYROLL / W2 |
|------------------------|--------------------|--------------------|
| Flexibility | High | Fixed schedule |
| SE Tax on withdrawal | Not directly | Yes - FICA |
| Payroll setup needed | No | Yes |
| W-2 at year-end | No | Yes |
| Quarterly estimates | Typically required | Reduced/eliminated |
| Deductible by business | No | Yes |
| Mortgage or loan docs | Can be harder | Easier to document |

Your Entity Type Determines Your Options

Your entity type determines which method is available to you, and in some cases, which one is required by law.

Sole Prop or Single-Member LLC

Draw is the default. You're taxed on net profits regardless of whether you take a draw, so the withdrawal itself doesn't trigger extra tax. The focus shifts to estimating quarterly payments accurately so you're not blindsided in April.

This guide is for information only and is not tax, legal, or financial advice. Work with a CPA or tax expert before finalizing how you pay yourself.

S-Corp Owner Working in the Business

The IRS requires you to pay yourself a 'reasonable salary' via payroll before taking any distributions. The good news: profits above that salary flow to you as distributions not subject to self-employment tax — which is the core financial argument for electing S-Corp status in the first place.

Partnership or Multi-Member LLC

Partners take guaranteed payments or draws, not a traditional salary. Each partner's share of profits is reported on a K-1 and subject to SE tax based on the operating agreement. No W-2 involved.

Any Structure — But You Need a Loan Soon

Lenders want to see documented, consistent income. Payroll generates a W-2, which is much easier to work with than bank statements and draw history. If a mortgage or SBA loan is on the horizon within a year or two, factor that into the conversation with your accountant now.

Questions to Bring Your Accountant or Tax Pro

Q1 Given my entity type and expected income, what's the most tax-efficient compensation structure for this year?

Q2 If I'm an S-Corp, what's a 'reasonable salary' for my role — and how do we document that?

Q3 How much should I be setting aside for quarterly estimated taxes, and when are those payments due?

Q4 Are there retirement account strategies — SEP-IRA, solo 401(k) — that would change which method makes more sense?

Q5 I'm planning to apply for a mortgage or SBA loan. Does that change what my compensation should look like on paper?



At Central Willamette Credit Union, our Business Services team is here to help you set up payroll, open or manage the business accounts that support your compensation approach. Reach out to your Business Services Team at 541-918-7526 or at BusinessServices@centralwcu.org.