
[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

## Give Yourself a Payday

Published September 25, 2007

*As a small business owner, it's natural to reinvest your money in your company. A well-funded business, after all, is a successful business. You work hard, though. Isn't it time to reap what you sow?*

By: MATT ALDERTON

Dmitriy Peregudov is a Russian-born serial entrepreneur. At just 32 years old, he's already starting his third business, a newborn venture based in Arlington, Mass., called [eGestures](#), through which he sells gift vouchers that can be redeemed for experiences like balloon rides, massages, dancing classes or racecar driving. The third time's a charm, he's hoping. And really, he argues, it ought to be, because starting one business—let alone three of them—will teach you an awful lot about bootstrapping. In fact, so will growing up in Communist Russia, where small business wasn't always so big.



Photo by: iStockphoto

Peregudov's entrepreneurial experience and his cultural background have teamed up to teach him many lessons. Among the most important that he's learned about start-ups is that they require cash; smart entrepreneurs, he argues, put lots of it into their business and take very little out of it. "The less you bleed the business in its early days," he says, "the greater the chance your venture will survive."

When he starts a new business, therefore, Peregudov makes a habit of paying his company plenty while making sure that his company pays him very little. In other words, he subjects himself to financial famine. "Being originally from Russia," he says, "I was used to an idea of *only* getting paid what you *earn*, while investing what you *have*."

Upon starting his first business, [GoodChoiceFlowers.com](#), in 2002, Peregudov denied himself a salary for nearly three years while he built his business. It felt natural. It felt necessary. It still does, as a matter of fact. He's not planning to take a reasonable salary from his new venture until it's generating annual revenues of at least \$500,000.

"Your profits will dictate when you can start getting paid," he says.

Of course, Peregudov isn't alone. Thousands of small business owners share his frugal philosophy, which mandates taking care of your business first and yourself last. However, there comes a time in the life cycle of every company where its founders must claim the rewards that are due them. When they do, they discover new sources of legitimacy, motivation and satisfaction that lift their business higher than any green could ever take it.

### Compensation: You Deserve It

Small business owners are notoriously thrifty. If they can avoid spending a dime in order to save a nickel, they'll do it. It's no surprise, then, that many small business owners say, "No," to a salary.

"It's really easy in every life stage of a business to continue to invest all your money in it," says Kathleen Echeverria of [PayCycle Inc.](#), a Palo Alto, Calif.-based payroll company for small businesses. "It's sort of like raising a child. When it's a baby, it needs something. When it's getting to be 7 or 8 years old, it has different needs. When it's an adolescent, it needs something else entirely."

In other words, a business always needs something. And like a caring parent, a business owner is always ready and willing to give it.

The trouble with that, Echeverria suggests, is that the metaphorical parent too often ends up usurping the real one. "At the end of the day," she says, "most small business owners are family people, and they still need to put the meat and potatoes on the table, so to speak."

Entrepreneurs, single and married, with and without children, have bills to pay. And whether you're working for yourself, or for the Man, work ought to be a means to an end—not an end in and of itself.

"Business ownership is about getting paid," says small business author and consultant Andy Birol, owner of Solon, Ohio-based [Birol Growth Consulting](#). "The bottom line is this: If your customers are paying you money, it is absolutely proof that they value what you're doing. If that market is valuing you, it's paying you. And if it's paying you, you should be paying yourself. Otherwise, why are you doing this?"

According to Birol, a payday is more than a check to the average small business owner. It's sustenance, survival, inspiration and incentive; small businesses may need cash, he acknowledges, but they also need motivation.

"There's nothing like a business owner landing a great deal," he says, "having suffered for months or years, and buying themselves a car or taking their family on a vacation. We have to be so self-motivated. I therefore encourage owners to reward themselves." After all, every time you get in that car or look at that family photo, you'll remember what success tastes like. And while you may cringe at the thought of "bleeding" your growing business, you may just end up breathing new life into it, instead.

### The Magic Number

Of course, paying oneself is about more than satisfaction. Ultimately, necessarily, it's also about taxes, budgets and earnings. As such, exercising restraint is just as important as claiming rewards. You have to watch out for yourself and for your business, and balancing those interests isn't always easy.

"Small business owners typically need money to live on," acknowledges Jerry Mills, founder and CEO of Phoenix-based [B2B CFO](#), which provides CFO services for small businesses. "So, they take money out of their business, but they don't often take it out in a beneficial manner."

A beneficial withdrawal is one that maximizes rewards and minimizes penalties. A good accountant is paramount, therefore, in determining when, how and how much to pay oneself. Here are several options you should consider and discuss, depending on how your business is structured:

- **Salary:** If your company is incorporated, your personal salary may be deductible on your corporate tax return. Be careful, though; paying yourself a salary may subject you to double taxation, and higher salaries may not be eligible for deduction.
- **Bonuses:** If you prefer to wait until the end of the year to compensate yourself, you can couple small withdrawals throughout the year with a larger year-end bonus that's calculated according to your profits.
- **Dividends:** Also known as profit distributions, dividends are exempt from self-employment tax and are therefore an excellent option for business structures that allow compensation via profit distributions.
- **Draw:** Because sole proprietors are only taxed once, they don't need to take an official salary. Instead, they can claim all their profits as wages, a "draw," and report them on their personal tax returns.
- **Fringe Benefits:** Consider paying for expenses such as a car or retirement savings from your business accounts, rather than your personal accounts; they may qualify as tax-deductible fringe benefits.
- **Income Shifting:** You may be able to save some money by paying family members as employees, so long as they're actually working for your business.

Even once you've decided that you deserve to be compensated, and settled on a method for claiming your fair share of hard-earned cash, there remains an important question: How much should you pay yourself?

The first, and most obvious, answer, according to Echeverria, is, "What you can afford." "You need to look at the revenue of the business," she says, "and all of its expenses in order to determine what the business can bear in terms of your salary."

Once you know what you can afford, determine what you need in order to maintain your lifestyle. Echeverria suggests using PayCycle's [payroll calculators](#) in order to determine how much gross salary you need to pay yourself in order to take home your desired net pay.

Yet another strategy for nailing your magic paycheck number is researching the job market. What would you be worth to another company employing you to do for their company what you do for yours? You may not be able to afford that number in your first years, but if you can't compete with it eventually, you're probably not living up to your potential in the marketplace.


No matter how you come up with your number—or how low or high that final number is—the important thing, even Peregudov acknowledges, is that you recognize your own hard work. "You feel rewarded," he says, "and for some people, it's an additional incentive to do better."

#### Links referenced within this article

eGestures  
<http://www.egestures.com/>  
 GoodChoiceFlowers.com  
<http://www.goodchoiceflowers.com>  
 PayCycle Inc.  
<http://www.paycycle.com>  
 Birol Growth Consulting  
<http://www.andybirol.com/>  
 B2B CFO  
<http://www.b2bcfo.com/>  
 payroll calculators  
<http://www.paycycle.com/external/business/paycheckCalculators.jsp>

#### Find this article at:

[http://pronet.nielsen.com/smallbusiness/content\\_display/finance/e3ib429a97580f60ae22c30078826bf2370](http://pronet.nielsen.com/smallbusiness/content_display/finance/e3ib429a97580f60ae22c30078826bf2370)

 [Click to Print](#)

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Uncheck the box to remove the list of links referenced in the article.