OWNER SALARY VS. DISTRIBUTION: WHAT'S THE BEST WAY TO PAY MYSELF?

If you own an S Corporation or an LLC taxed as an S Corp, you can generally pay yourself through a **reasonable salary and profit distributions.** The most strategic approach blends the two—meeting IRS rules while minimizing taxes, protecting audit defense, and building long-term wealth.

Why This Matters for Your Business as an Investment

How you pay yourself is more than a bookkeeping decision—it's a **wealth-building strategy.** The right balance of salary and distributions can **reduce your tax burden**, increase your retirement contributions, and free up cash for growth. Over time, this proactive approach can **raise your business's valuation** for a future sale or succession.

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4 Actionable Steps to Optimize Your Owner Compensation

1. Determine a "Reasonable Salary"

> Use industry benchmarks and your role's market rate. The IRS expects active S Corp owners to take a reasonable wage—skip this, and you risk audits and penalties.

2. Balance Salary and Distributions

> Once you set your salary, take remaining profits as distributions. This reduces payroll tax exposure while maintaining compliance.

3. Align Pay with Retirement and Tax Strategy

> Your salary affects the maximum you can contribute to certain retirement accounts. A higher salary may allow greater pre-tax savings—boosting your wealth while lowering taxable income.

4. Revisit Annually or When Goals Shift

> Market conditions, profitability, and your growth plans change. Review your pay structure at least once a year to ensure it supports your **business and personal wealth goals.**

Example Client Story *(Hypothetical Illustration)*

Consider a fictional business owner, "Michael," who runs a dental practice in Texas generating about $1.2M in annual revenue. In this hypothetical example, he pays himself $40,000 in salary and $160,000 in distributions.

If an advisor reviewed this structure, they might find:

- The salary could be too low for IRS standards.
- A higher salary might allow larger 401(k) contributions.
- Retaining a portion of profits could fund equipment purchases without borrowing.

By adjusting the salary to $80,000, keeping $120,000 in distributions, and reinvesting $40,000 into the practice, this hypothetical business owner could lower audit risk, reduce taxes, and improve business value for a future sale.

B.A.A.P. Strategic Advantage

Unlike many firms that only calculate payroll, **Business Advisory and Accounting Partners** integrates tax, operational, and financial planning into a single strategy. With a **commercial banking background, Practice Forward methodology**, and decades of tax expertise, we ensure your pay structure supports your **current needs and long-term wealth goals**—not just compliance.

Next Steps

Get proactive about your business now

Schedule your Advisory Fit Meeting

FAQ

Q: What is a reasonable salary for an S Corp owner?
A: It's the market rate you'd pay someone else to do your job, based on role, experience, and industry standards.

Q: Can I take all my compensation as distributions?
A: No. If you actively work in the business, the IRS requires reasonable salary via payroll.

Q: How does my salary affect retirement contributions?
A: Certain retirement plans calculate contribution limits based on salary. A higher salary can increase your allowable contributions.

Q: How often should I adjust my pay structure?
A: At least annually, or whenever profits, role, or business goals shift.

Q: Does this apply to sole proprietors or C Corps?
A: No. Different rules apply—consult with a trusted advisor.

Q: Why is balancing salary and distribution important?
A: It minimizes taxes while ensuring compliance and supporting wealth-building strategies.

Q: How does B.A.A.P. approach owner pay differently?
A: We integrate tax, operational, and financial planning to align compensation with growth, retirement, and succession goals.

Q: Can changing my salary lower audit risk?
A: Yes. Setting a salary in line with IRS expectations reduces red flags.

Q: Will paying myself more hurt my cash flow?
A: Not necessarily—strategic planning can maintain healthy cash reserves while increasing salary.

Q: Why work with a Florida-based CPA firm serving clients nationwide?
A: B.A.A.P. combines national reach with deep strategic insight, ensuring your compensation strategy works for both tax savings and long-term value.