

Paying yourself when you start a small business

 By [Sophie Baker](#)

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When you start your own business, you have to make a decision on how much to pay yourself. During the first few months you will probably be operating in the red, so you need to strike a balance between reducing your overheads and still paying yourself enough.



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Either you can pay yourself enough to 'get by', or you can pay yourself what you think you are worth. There is also the option to increase your salary with growth, or to pay yourself a bonus after a certain time period. Whichever way you go about paying yourself, it may mean taking a pay cut, especially if you have come from a successful corporate background.

To determine what your salary should be working on the 'get by' principle, you need to work out your expenses. Ideally, you want to pay yourself a smaller salary so that savings can be plowed back into your business - which will hopefully make you a millionaire one day!

Work out how much you need

Cut out luxury items, and work on what is necessary. If you are debt free, especially if you have managed to pay off a bond, you will decrease your monthly salary requirements, as well as make yourself more investable when you need to raise capital. Work out how much you need over at least a 6 month period - include all basic monthly costs, as well as any payments that you may need to make annually, quarterly or over any other time period.

The second method is more subjective. How much are you worth? You might think you're worth a 6 figure salary, but others may disagree. To go down this route you need to be very honest with yourself. Use your current wage as a starting point. This is your market worth. You can then add 3-4% to account for inflation and calculate your basic worth - this takes into account your extra responsibilities as a business owner, as well as the added value you provide to the business. During this step, however, it is important that you don't assume you are underpaid at your current position.

Pay yourself out of profit

Your salary is very important, because you will need to include projections in any financial forecasts when looking for financing and capital. Once you have broken even, don't make the mistake of assuming you can increase your pay

substantially over night. A good rule to remember is to pay yourself out of profit, not revenue. Any pay increases should be linked to profit growth (for example, 10% of annual profits is your salary increase or bonus). If you are struggling to work out your salary after operating for some time, consider hiring an accountant and asking them what your pay should be based on your books.

Don't become greedy, as your business is your lifeline. If you take too much out of it you will eventually cause your business to fail.

ABOUT SOPHIE BAKER

Sophie Baker is the content producer at Biz4Afrika, a Microsoft-owned online hub providing help, information and networking opportunities for small businesses, through Content Studio.

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