

Q&A FOR S CORP. BUSINESS OWNERS

“How do I get started with Salary, W2’s & Payroll?”



EXAMPLE COMPANY: \$80K ANTICIPATED SALES REVENUE

Option A: Owner’s Compensation

If your business has \$80K in 2024 sales, after all expenses, your *net income will be (estimated) = \$50k.

How to set a salary for the year: Your W2 salary should be about half of your anticipated *net income.

Salary Example: \$50,000 anticipated income, 50% of net income = \$25,000 (Estimate)

Payroll Setup: Once you set up an LLC, EIN, and S Corp., we can refer you to our ADP contact. Set up is easy with ADP.

Paying Yourself: Get set up to pay yourself weekly or biweekly, an approximate \$25K - \$30 yearly salary. You will receive a W2 annually, through your LLC/S Corp with the ADP program.

Example of what your profit and loss would look like:

2024 Sales: \$80,000

2024 Business Expenses: \$30,000

2024 W2 payroll with ADP: \$25,000

2024 Net Income: \$25,000

Salary Goals for New Owners:

Try to pay yourself a higher W2 with each year. The higher your W2, the less your tax burden will be on your remaining net income.

Important Business Accounting Facts:

- The \$25K net income is shown on your S Corp as ordinary income. (This goes on the K-1).
- The \$25,000 W2 Salary has Federal & GA taxes paid on it, reflected on your 2024 *personal tax return.
- The W2 amount you pay yourself is an expense/deduction in your profit & loss (since you already paid taxes on it).

Option B: Owner’s Compensation (A Slightly Easier Method)

Salary Example: If \$7,000 is needed each month to pay *personal expenses, consider running half of that amount (\$3,500) through a payroll company each month, paying Owner’s Compensation. This is W2 payroll. Plan to expense the P&L.

For the remaining \$3,500 needed monthly to pay *personal expenses, the owner would write a check from their business account to their personal name, and deposit it into their *personal bank account. (Referred to as Shareholder’s distributions).

Important Business Accounting Facts:

Shareholder’s distributions: This is not an expense, yet it reduces shareholder equity on the balance sheet.



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