



OWNER'S WAGES: WHAT SHOULD YOU PAY YOURSELF?

I read something recently that caught my eye. Greg Crabtree, an accountant from the USA, wrote a book called "Simple Numbers: Straight Talk, Big Profits!" I was introduced to Greg at the Fortune Growth Summit in Phoenix, Arizona last year and grabbed a copy of his book at the same time.

One of the key themes of Greg's book, which was written to help entrepreneurs succeed, is to determine how much owners should pay themselves. The key message he delivers is that you should get paid a salary for what you do, and you should get a return on what you own.

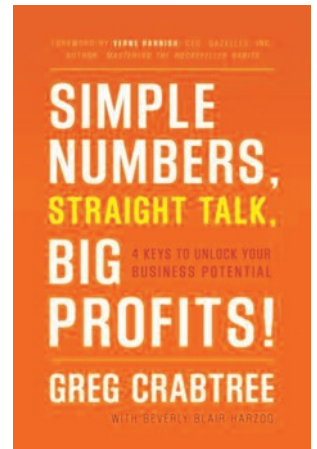
Traditionally, for tax and cash considerations, accountants have encouraged their clients to take their wage as a distribution if operating through a trust or through loans and dividends in a company environment. This gives clients the ability to use money before the tax is required to be paid. Salaries produce a commitment to pay Canada Pension Plan and tax. As accountants, we always encourage clients to reduce the salary they pay themselves and then pay the catch up tax later – it must be paid some time!

I must admit, after reading Greg's book, I have had a change of heart about this approach and even to the extent of applying it within my own business. If you adopt the principle of paying yourself a market wage, you get a true indication of the profit made by the business. This will help you determine your ability to pay others to potentially replace you completely or partially depending on whereabouts you are in your business or working lifecycle.

e.g. If I have a business that produces a profit of \$200,000 but I only pay myself a wage of \$50,000 when my market salary should be \$150,000, I am effectively overstating my profit by \$100,000. When I go to sell the business, I will need to make an adjustment for that difference. Even if I don't sell I know I only have an extra \$100,000 to pay someone before the business is break even.

The issue is even more important for multiple owner businesses. Market salaries should be used to reward effort (and differences between that effort) to ensure that owners who also participate in the business get a fair return for their effort when compared to their business partner(s).

I would encourage any owner to reconsider the amounts they are paying themselves to ensure it is a fair market return for their effort so that their profit truly represents the value of the business rather than being their salary in another form. Even in the absence of making a physical adjustment to wages, for internal reporting purposes, market wages should be used for any employee who is receiving lower wages to ensure the true bottom line of the business is known.



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Assist business owners in achieving their **goals**