

# Paying Yourself

Business  
Power Tips

This Power Tip is covers everything you need to know about paying yourself including:

- Paying yourself as a sole trader
  - Wages
  - Owner's drawings

**At Many Rivers we say that a hobby is something that costs you money and a business is something that makes you money! Therefore, an important part of business is knowing how to pay yourself.**

There are important tax and reporting obligations for you and your business, and this differs based on the type of business structure that you are operating.

## Paying Yourself as a Sole Trader

The simplest structure is to operate as a sole trader. As a sole trader, you want to make sure you're paying yourself - not just covering the costs of your business, including paying people working for you. As the business owner, you are the one taking on the risks of running the business, so there should be a return for your work in the business as well as a return on the risk that you have taken by investing in and running the business.

There are two main ways sole traders pay themselves:

- Wages - paying yourself for your work in the

business.

- Owner's drawings - paying yourself from the profits of your business reflecting a return on your investment

## Wages

Many sole traders pay themselves a wage like they would for other employees in the business. This is generally based on the hours they work in the business, at a rate they would pay another person as an employee to do that work. Paying yourself a wage is helpful as it helps you to understand the real cost of running your business, as well as the real profitability of your business, as the business is incurring the cost of the time you spend working in the business. Paying yourself a wage also helps you know when you can afford to pay other people in your business or when you need to complete the work yourself.

The time you spend working in the business is a key asset for your business. You don't want to find yourself in a situation where you are covering all the costs of the business, including paying your staff, and then find there is no money left over to pay yourself.

Paying yourself a wage also gives you some certainty for your personal finances, as you are earning a regular income based on the time you spend working in the business. Don't forget, when you pay yourself a wage you need to set money aside to pay your taxes when they are due.



**Watch the full video:**  
[www.manyrivers.org.au](http://www.manyrivers.org.au)

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## Owner's Drawings

The other way sole traders can pay themselves is through making drawings from their business. This is generally how the business owner takes any profits from the business. Owner's drawings should only be made once the business has covered all its expenses. You also need to make sure that you leave enough cash in the business so that you can meet any future cashflow requirements and can continue to operate. This is really important - you need to make sure that you don't starve your business of the cash needed to keep operating.

Remember that there are tax and reporting obligations from making owner's drawings from your business.

This power tip focuses on sole traders. If you are planning to use a more complex business structure you should consider using an accountant or a qualified bookkeeper to make sure that you are following your taxation and reporting obligations.

No matter what business structure you operate, make sure that you follow these two fundamental rules:

1. Keep your business and personal bank accounts and transactions separate
2. Make sure you keep proof of your tax invoices and receipts for your income and your expenses. Ensure that you have a simple way of keeping these records, even if it is in a separate shoebox for each year!

**Many Rivers has a team of business coaches that can discuss the best way to pay yourself from your business so get in touch with us and ask for help.**