Libman Tax Strategies

Southern California S Corp Owner: Salary or Distribution? The 7-Point Checkup

Make sure the way you're paying yourself makes sense without guessing, scrambling at tax time, or wondering whether your S Corp records are being handled correctly.

INSTRUCTIONS

Go through the seven questions below and mark each one:

- **YES** — I know this is handled.
- **SOMETIMES** — I need to double-check.
- **NO** — I know this needs to be reviewed.

This isn't meant to turn you into your own tax professional. The goal is simpler: **Figure out whether the way money moves between you and your S Corp deserves a closer look before your return is prepared.**

When you're done, count how many items you marked **NOT SURE** or **NEEDS ATTENTION.**

1. Are You Actually Running Payroll?

☐ Yes
☐ Not Sure
☐ Needs Attention

If you actively work in your S Corp, payroll may be an important part of how you compensate yourself.

If you've been taking money out of the business but aren't sure how payroll fits into the picture, flag it.

Ask Yourself:
Am I paying myself through payroll—or just transferring money whenever I need it?

2. Has Your Compensation Been Reviewed?

☐ Yes
☐ Not Sure
☐ Needs Attention

S Corp shareholder-employees may need to consider whether their compensation is reasonable for the work they perform.

That doesn't mean there is one magic salary number for every owner. It means this is something worth reviewing based on your actual situation.

Ask Yourself:
Do I know why my salary is set at its current amount?

3. Are Your Distributions Clearly Recorded?

☐ Yes
☐ Not Sure
☐ Needs Attention

Money you take out of the business should not simply disappear into an unexplained transfer category. You should be able to identify what was treated as:

- Payroll
- Shareholder distributions
- Reimbursements
- Other owner-related transactions

Ask Yourself:
Can I clearly explain how the money I took out of the business was recorded?

4. Are You Mixing Personal Spending With Business Activity?

☐ Yes
☐ Not Sure
☐ Needs Attention

Personal purchases paid directly from the business account or business expenses paid personally can make the books harder to understand.

If everything is mixed together, it becomes much harder to know what money was actually compensation, a distribution, reimbursement, or something else.

Ask Yourself:
Are my business and personal transactions easy to separate?

5. Do Your Payroll Records Match Your Books?

☐ Yes
☐ Not Sure
☐ Needs Attention

Your payroll reports and bookkeeping should tell a consistent story.

If wages, payroll taxes, or owner-related transactions don't match what's recorded in your books, that deserves attention before filing.

Ask Yourself:
Would my payroll reports and bookkeeping agree if someone compared them today?

6. Do You Know How Much You Took Out of the Business?

☐ Yes
☐ Not Sure
☐ Needs Attention

S Corp owners often move money between personal and business accounts throughout the year.

By year-end, it should be possible to understand how much was:

- Paid through payroll
- Taken as distributions
- Reimbursed
- Contributed back into the business

Ask Yourself:
Could I explain my total owner withdrawals without digging through a year of bank statements?

7. Have You Discussed This With Your Tax Professional?

☐ Yes
☐ Not Sure
☐ Needs Attention

The biggest red flag may simply be that nobody has ever explained how your specific setup is being handled. If you're not sure:

- Why your salary is what it is
- How distributions are being recorded
- Whether payroll is being handled correctly
- How owner withdrawals affect your records

then those are questions worth asking before the return is prepared.

Ask Yourself:
Do I understand the reasoning behind how I'm paying myself—or am I just hoping it's right?

Your Results

Count every answer you marked **NOT SURE** or **NEEDS ATTENTION**.

0–1 Items

You may already have a fairly clear system.
Still make sure your tax professional has the information they need before your return is prepared.

2–3 Items

There are enough open questions that it's worth reviewing how owner compensation and distributions are being recorded.
A few small uncertainties can turn into a much bigger cleanup project later.

4+ Items

It may be time for a closer look.
If you're unsure how payroll, distributions, owner withdrawals, and bookkeeping all fit together, don't wait until tax filing is already underway to figure it out.

WHY THIS IS IMPORTANT

One of the advantages of an S Corp is that it gives business owners a specific structure for how income flows through the company. But that also means there are more moving pieces to keep straight.

If payroll is unclear, distributions aren't recorded properly, or owner withdrawals are being handled inconsistently, tax time can become a guessing game. You shouldn't reach the end of the year wondering:

- **"Was that salary?"**
- **"Was that a distribution?"**
- **"Did we record this correctly?"**
- **"Why am I only figuring this out now?"**

The goal is not to memorize tax rules.
The goal is to have a system you understand and confidence that the way you're paying yourself is being handled properly.

Not Sure How You're Paying Yourself?

Adam C. Libman, CRTP works directly with business owners on tax preparation and bookkeeping.

If you went through this checkup and realized you're not completely sure how your salary, distributions, or owner withdrawals are being handled, you can have a straightforward conversation with Adam about your current setup.

And if communication with your current accountant has become part of the problem: **We return every call and email or your money back.**

adamlibman.com/free-s-corp-tax-return-year-one

Talk With Adam