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NetWorth

Tips for paying yourself as a business owner

To run a business, you need to be a jack or jill of all trades. But while many entrepreneurs know how to tackle sales, marketing, finance, and business development, most are unsure what to pay themselves.

Business owners typically want to keep money inside the company for growth, but they also need to live and support a family. Many owners work hard for their success and want to reap the financial benefits, but fear cash-flow problems within the business. Yet, taking too little salary can cause stress from trying to make ends meet at home.

According to a survey[1] from accounting software company Pilot, 46% of business owners pay themselves less than US$100,000 per year, and 5% take no salary. The average founder salary is US$114,000.

Every founder treats their business and values their work differently, but here are some considerations on what you should earn.

Step 1: Examine your personal life

Determine how much you need to live on and create a budget. Spending guidelines make it easier to pull out only what you need, reduce personal expenses and keep more money in the corporation.

Step 2: Determine what you're worth

You'll never find a number large enough to make up for all the stress of owning a business, but you can valuate your contribution. Look at salary-listing websites such as Glassdoor.ca or the Government of Canada's Job Bank to see what a CEO, senior director or high-level salesperson in your industry earns. Also, talk to other company founders about what they pay themselves.

About BMO Private Wealth

Backed by the heritage, stability and resources of BMO Financial Group, BMO Nesbitt Burns, BMO Private Banking and BMO Trust have come together under the unified brand, BMO Private Wealth. Professionals from one of North America's leading full-service investment firms and Canada's best Private Bank* are partnered to help you navigate the complex process of managing your wealth. Our multi-disciplinary wealth management professionals take a proactive approach to helping individuals and families achieve their wealth goals. Services include wealth planning, investment management, banking, trust and estate, and philanthropy.

To learn more visit www.bmo.com/privatewealth

Step 3: Understand tax implications

If you own a corporation, you also need to determine how you pay yourself to minimize your tax bill. In Canada, corporations are taxed less than individuals, especially those in the highest tax bracket. Budget roughly 50% of your salary to cover personal tax obligations. Think carefully about how you withdraw money from the corporation; dividend withdrawals are taxed lower but are not deductible to your corporation, while salary withdrawals expand your Registered Retirement Savings Plan (RRSP) contribution room.

Step 4: Find a salary that works – and then tweak

After doing your research, talking to other owners, crunching your tax obligations, and developing a budget, find a figure that works for you and your business. Since you're your own boss, it's easy to ask for a raise. Had a great year? Take a little more out. Revenues are up by 50% and you feel they'll be sustainable? Consider increasing your salary regularly.

Learn more from your BMO financial professional.

10 ways to divorce-proof your assets

No one marries with the expectation of splitting up, yet 38% to 48% of Canadian marriages end in divorce. Studies show that, in traditional marriages, a woman's income generally falls by a wider margin than the man's when the marriage dissolves.

High-achieving couples also face more complexities in the divorce process owing to the large number of assets, shared business ownership, and investments, among other factors. Here's how to prepare for the worst while hoping for the best.

1. Consider a prenup or postnup

While divorce settlements typically divide assets acquired during a marriage (with some exceptions), a signed contract can help you keep what's yours. A prenup – or postnup, which is created after two people are already married – can stipulate, for instance, how you plan to share earnings, bonuses and share options, or who will keep possession of the ski chalet in Whistler. These agreements are especially important if you don't want someone else to take half of the business you've worked hard to build. Talking in terms of protecting the company and its employees makes prenup conversations less awkward. When planning to suggest a postnup, choose a moment when you're both relaxed and aligned. Seek independent legal advice before signing a pre or a postnup, otherwise it won't be worth the paper it's written on.

2. Document gifts and inheritances

In the absence of a prenup or postnup, all assets owned by both spouses in a marriage are generally considered family property subject to equal division. However, while laws vary by province, inheritances and gifts are typically exempt. Keep a paper trail demonstrating how and when these assets were acquired: legal statements, valuations, Notices of Assessment, letters, or emails that establish you as the sole recipient. Also, keep gifts and inheritances separate from family assets. While paying down your mortgage with an inheritance may seem responsible, you relinquish protections from family law.

3. Time your separation

Expecting a bonus? Have languishing investments poised for a big rebound? Any gains that happen after separation typically go to the spouse who owns the asset. So, if you're expecting a windfall, time your separation date to avoid sharing upcoming gains.

4. Don't knee-jerk liquidate

During a breakup, affluent couples who sell their assets immediately to settle up can trigger unwelcome capital gains. Consider transferring assets between spouses via a spousal rollover, which can minimize your tax liability when dividing assets. Once you've separated – and before you're legally divorced – a financial advisor can explain the tax implications of liquidating or transferring assets.

5. Review your estate plan

Regularly revisit your Will, powers of attorney, beneficiary designations, and shareholder agreements to ensure your assets are distributed according to your wishes. A separation or divorce doesn't typically revoke the terms of legal documents, so if you don't want your rare book collection to go to your ex, update them.

6. Avoid keeping everything in joint accounts

Research suggests that shared accounts engender trust and greater marital happiness, so you both may want to contribute to one account that covers expenses. But consider keeping everything else in separate accounts. Commingled assets can be difficult to untangle – and easily accessed by an embittered ex, who could transfer all joint account funds to their sole accounts and leave you needing legal help to proceed. Since divorce could mean you suddenly need a new home, make sure that at least one of your accounts is liquid enough to cover a down payment.

7. But don't hide assets

Transparency is important in a healthy relationship. Lack of it can exacerbate problems in a breakup. A spouse who finds out about an undisclosed investment portfolio or work of art may turn nasty and complicate settlement proceedings.

8. Make a comprehensive list of all your assets and liabilities

Your lawyer or mediator will need this to help determine a settlement and you don't want to scramble to remember what's yours when things become emotionally fraught. Include:

- Your home and any other real estate
- Your investment portfolio
- Businesses
- Pensions and registered retirement accounts
- Bank accounts
- Cars and recreational vehicles
- Jewelry, art and safety deposit box contents
- Mortgages and lines of credit

9. Consider a mediator

No one wants their financial holdings publicly disclosed. Working with a mediator keeps settlements private, which helps to protect your privacy across your social network.

10. Don't pay for things you don't own

For example, don't chip in for your in-laws' cottage reno if the cottage will eventually go to another family member besides your spouse. Don't construct a cabin on their cottage land to add to the family compound – while this may give you access to a vacation property you may not otherwise be able to afford, it won't likely be a "family asset" when you separate unless it's legally well documented. You may need to take legal action against your in-laws through a constructive trust claim if you divorce. This expensive, emotionally exhausting endeavour often causes people to walk away rather than pursue a claim.

Having a prenup or postnup in place will provide both partners with peace of mind in the event of a relationship breakup.

Learn more from your BMO financial professional.

The "nudge" theory and investor behaviour

You've probably already experienced a "nudge" today. Perhaps you slowed down exiting the highway because you saw lower speed signs on the off-ramp. Or maybe you entered a coffee shop intending only to buy a latte but couldn't resist the muffin at the cash.

Nudges – both subtle and overt – are everywhere and used strategically to impact people's decisions, including decisions about saving and investing. In their profoundly influential book *Nudge* (first published in 2008 and revised in 2021), American legal scholar Cass Sunstein and economist Richard Thaler outline how nudges can help people overcome biases and instinctive behaviours that result in less-than-ideal choices. As one of the foundational books about behavioural economics, the impact of *Nudge* can be seen everywhere, from presumed-consent organ donation laws in countries like Spain and England to retirement savings programs in the United States. Here are three of the book's key concepts.

Choice architecture

"If you want to encourage some action or activity, Make It Easy (p.106)." How choices are presented to us is as important as the choices themselves. For instance, a business wanting to save on energy bills may set their thermostat a half degree cooler or warmer. That small change is unlikely to motivate employees to change the thermostat to its original temperature.

Mental accounting

Create spending parameters in scenarios where you may lack self control; for example, at an amusement park. Money is fungible – it doesn't come with labels attached and can be used to purchase anything. So, when you tell your children they only have $12 left for treats, you actually have plenty more money you could spend, but you mentally labelled a certain amount for the day.

Status quo bias

Like the default office thermostat setting, certain scenarios take advantage of the fact that most people stick with what they know or currently have because it takes too much mental energy to do something different. Students gravitate toward the same seats each week, without assigned seating. Be aware that companies often exploit status quo bias, or inertia, by offering a free trial subscription that automatically switches to a paid one unless you opt out before the trial ends.

Investors might not invest in anything if too many product options are presented. If they don't have a number in mind on when to sell, they often hold poor-performing stocks too long (loss-aversion bias causes people to feel a loss more than a gain).

Implement strategies to overcome investment biases

Many people set up automatic withdrawals from their bank accounts into their RRSPs. Shlomo Benartzi and Richard Thaler designed the Save More Tomorrow program – a "nudge" designed to get American companies to enroll employees into a retirement savings plan by default. The program automatically increases an employee's savings deposits from payroll whenever they're given a raise. It's been so successful that it became part of the *Pension Protection Act* in the United States in 2006. Canada doesn't have the same rule, but many company pension plans automatically move money from a paycheque into an investment account. You can also automatically move money from your chequing account every payday into your RRSP. By increasing automatic withdrawals over time, you'll save even more.

But beware: status quo bias can prevent you from choosing better portfolio options that become available. Proactively avoid this trap by doing your research – look at your investment options, read up on different products, and schedule regular check-ins with your financial advisor to ensure you're getting the most out of your money.

To prevent losses, don't just think about selling at a specific price, as the market moves quickly. Determine the price at which you want to sell a stock and set a stop loss order so you'll automatically sell at that point.

While many nudges are external – from the government working in our best interests to corporations looking to make money – investors can benefit most from self-nudges. Setting up investment guardrails and reminders to check in with your advisor, and making regular deposits into an investment account can help you maximize your money.

Learn more from your BMO financial professional.

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1. www.pilot.com/report/founder-salary-2022

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