How to Pay Yourself as an LLC in 2025 (BIG UPDATES)

If you run an LLC in 2025, the way you pay yourself could be costing you thousands or putting you on the wrong side of the IRS. And it's not just about how much money you keep. It's about choosing the best way to pay yourself.

I've gone through every 2025 IRS update, compared advice with the best tax experts, and put it all into one simple plan. Trust me, by the end of this video, you'll know exactly how to pay yourself, how much to set aside for taxes, and the new rules to follow so you can keep more of your money without breaking the law.

Let's start with the one thing that decides every payment option you have: your LLC's tax classification.

Chapter 1: Know Your LLC Tax Classification

Your LLC's tax classification is the rulebook for how you're allowed to pay yourself. It's not about what you call yourself — it's about how the IRS sees you.

If you're a **single-member LLC** and never filed to change your status, you're what's called a "disregarded entity." For taxes, the IRS treats you like a sole proprietor. That means you can't put yourself on payroll, even if you wanted to. Instead, you take what's called an owner's draw. Moving money from your business account to your personal one whenever you need it. I know that sounds flexible, but here's the catch: every dollar of your net profit is subject to self-employment tax, even if you leave it sitting in the business account.

If you've got a **multi-member LLC**, the IRS treats you like a partnership by default. You can split profits based on ownership percentages, or set up guaranteed payments (fixed amounts you pay members) regardless of profits. That's good for stability, but it can stress cash flow in slow months.

Then there's the **S-Corp election**. This is where a lot of owners try to save on self-employment tax. You pay yourself a "reasonable salary" through payroll (taxed like any employee), and the rest of your profits can be taken as distributions, which aren't hit with self-employment tax. But if your salary is too low, the IRS can reclassify your distributions as wages, with back taxes and penalties.

Finally, there's the **C-Corp election**; less common for small businesses. You pay yourself a salary, then dividends from after-tax profits. The problem with this, is that those dividends get taxed again on your personal return. Double taxation isn't fun, unless you have specific reasons like raising big capital or going public.

Once you know your classification, the real question becomes… how do you actually move money from the business to your pocket without overpaying or breaking the rules?

Chapter 2: The Main Ways to Pay Yourself from an LLC

There four main ways to pay yourself from an LLC. First, is the **Owner's Draw.** Think of this like dipping into your business cookie jar, you take money out when you want, no payroll required. It's common for single-member LLCs and partnerships.

However, with this method, no taxes are withheld. That means you have to set aside 25–30% for taxes on your own, or risk a nasty surprise at tax time. I've seen owners drain their business accounts during a good month, only to struggle when quarterly taxes come due.

The othe way to pay yourself is through **Guaranteed Payments.** For multi-member LLCs, this works like a salary substitute. You agree in your operating agreement to pay certain members a set amount no matter what. That can be great for budgeting your personal life, but dangerous if the business hits a slow period , because you still owe that payment.

Then there's **S-Corp Salary + Distributions.** This is a popular money-saver. Pay yourself a reasonable salary (through payroll, with W-2 and withholdings) and take extra profits as distributions that avoid self-employment tax. Example: If you make $120K in profit, and pay yourself $70K in salary, the remaining $50K in distributions avoids the 15.3% SE tax, saving you about $7,650. But you must be able to prove that $70K is "reasonable" for your role. That's where IRS scrutiny is highest.

Lastly we have **C-Corp Salary + Dividends.** C-Corps can pay salaries and dividends. Salaries are deductible for the business but taxable to you. Dividends on the other hand, are taxed at both levels. This is usually only worth it if you’re planning big investment or a public offering.

I’ll give you a personal example. Someone I know runs a small video editing agency as an LLC taxed by default. In 2024, she switched to S-Corp and saved over $9,000 in SE tax, but only because she documented her salary properly and used Gusto to run payroll. Without that paper trail, it could have been an audit risk.

But even if you pick the perfect method today, 2025 threw in new rules that change how some LLC owners should pay themselves. And if you miss them, you could lose those savings or face compliance trouble.

Chapter 3: 2025 Rule Changes You Must Know

This year isn’t just “business as usual.” A few updates flipped what we knew about paying ourselves. First up is the **Corporate Transparency Act (CTA)**. As of March 26, 2025, domestic LLCs no longer have to file Beneficial Ownership Information reports with FinCEN. Last year, this was a looming headache for every LLC owner. Now, you can cross it off, unless you’re a foreign company registered in the U.S.

The other update is **DOL Overtime Thresholds**. If you’ve got employees, the minimum salary for overtime-exempt staff jumped to $58,656. Miss this, and you could owe back pay for overtime. Even if you’re an S-Corp owner-employee, you need to be aware, especially if you hire full-time help.

The third update is the **IRS Changes**. Standard deduction is higher ($14,050 for singles), Section 179 deduction is bigger ($1.3M for gear and software), and the QBI deduction thresholds shifted. Plus, the Social Security wage base rose to $170K, meaning more income is exposed to the 12.4% Social Security tax.

With new AI tools and funding, **IRS Enforcement** is up, especially for S-Corps with suspiciously low salaries, 1099 contractors who might be employees, and unreported crypto income.

Which of these 2025 changes were you hearing for the first time just now? Let me know in the comments.

Now, with all these updates, how do you figure out which payment method makes the most sense for you **right now**?

Chapter 4: How to Pick the Best Payment Method for Your LLC

Picking a lane comes down to three things: how much profit you make, how much admin you want, and how much audit risk you'll tolerate. At the end of the day, the method you choose should protect your cash flow, keep you compliant, and, yes; legally shrink your tax bill.

If you're a **single-member LLC** making under $50K profit, an owner's draw might be simplest. Less paperwork, more flexibility. Just remember; you're on the hook for every dollar of self-employment tax, so set aside that 25–30% the second the money hits your account.

If you're **multi-member** with uneven profits, consider a mix of guaranteed payments for predictable income and distributions for profit sharing. That way, you don't live on "feast or famine" payouts.

If your LLC is making $80K–$100K+ in profit, run the numbers on **S-Corp election**. The tax savings from distributions not subject to self-employment tax can be worth the extra payroll setup.

Example: If you generate $100K in profit, have a $60K salary, and $40K distributions. You'll save about $6K in SE tax.

As for C-Corp, unless you're raising serious investment or want to keep profits inside the company long-term, it's usually not the leanest choice.

A quick rule of thumb is: If your main goal is simplicity pick draw. If it's stability choose guaranteed payments. If it's tax savings, go for S-Corp.

Knowing your method is one thing… but actually setting it up correctly is where most owners stumble.

Chapter 5: How to Actually Do It Step-by-Step

Let’s turn the theory into action.

Step 1: Confirm Your Tax Classification

Look at your last year’s tax return. If you filed Schedule C, you’re taxed as a sole proprietor. If you filed Form 1065 with K-1s, you’re a partnership. If you filed 1120-S, you’re already an S-Corp.

Step 2: Choose Your Payment Method
Match your classification to the right approach (draw, guaranteed payments, salary + distributions).

Step 3: Open a Business Bank Account
Separate business and personal funds completely. This protects your liability shield and makes tax prep painless.

Step 4: Set Your Pay Schedule

Set a draw cadence. Decide monthly or bi-weekly transfers. For S-Corp salary, set up payroll in Gusto, QuickBooks, or Paychex.

Step 5: Automate Your Tax Set-Asides
Use a second savings account just for taxes. Every payday, move 25–30% there before you touch a dime.

Step 6: Document Everything
Keep a clear record of each payment. For S-Corps, also document how you calculated your salary; hours worked, duties, industry comparisons.

But even with the right system in place, there are traps that can undo everything.

Chapter 6: Common Mistakes to Avoid

The first mistake is **paying yourself too much, too soon**. Draining the business account during a good month leaves you exposed in slow months.

Another mistake is **not setting aside taxes**. Skipping quarterly payments leads to penalties and interest.

Sometimes you might also fiend yourself **mixing personal and business funds**. Mixing personal and business money weakens your liability protection and makes audits worse. Keep separate accounts and always tag transactions..

Another common mistake is **S-Corp owners underpaying themselves.** Choosing a low salary saves tax today and invites a costly audit tomorrow. Document hours, duties, and comps. Keep that memo.

Ignoring rule changes is also a mistake most LLC make. Always stay updates. Common rules that I've seen most people ignore is the 2025 CTA shift or new overtime thresholds. Avoid outdated advice; it can cost you.

Lastly, avoid **overcomplicating when you don't need to**. If you're small and simple, you don't have to jump to S-Corp right away. Grow into it.

It's important to note that, most of these mistakes happen because the owner is reacting month-to-month. Avoid that. Instead run your LLC with a clear plan, and not only will you remain in good hands with the IRS, you'll also avoid overpaying in taxes.

You now know how to pay yourself the right way in 2025… but even if you do it perfectly, certain tax write-offs can still put you on the IRS's radar. Some of the most common ones are completely legal, yet they're also the first things agents look for when deciding who to audit. That's why the next step is knowing which deductions carry the highest risk and how to handle them so you can keep your savings without raising red flags. Watch the breakdown of all seven here. (end screen video:7 Popular Tax Write-Offs That Could Trigger an IRS Audit)

And if you want to stay ahead of every IRS update that could impact your business, consider subscribing. I post practical, proven strategies you can use to save money, stay compliant, and run your business with confidence. A like also helps more small business owners see this and protect themselves. Thanks for watching, see you on the next one.