



## *No-Painful-Surprises Accounting for Independent Contractors*

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### *Outline*

- ▼ The consequences of not planning
- ▼ Expenses
- ▼ Income
- ▼ Cash flow
- ▼ Accounting software
- ▼ End-of-year analysis
- ▼ Resources

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### *What if you don't plan?*

- ▼ Unpleasant tax surprises
- ▼ Rate too low
- ▼ Cash flow problems
- ▼ Forgetting to save for time off, new equipment/software, and retirement

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### *Expenses: Stuff*

- ▼ Amount to allocate
- ▼ Expense categories
  - Cost of goods sold
  - Advertising
  - Bad debts
  - Auto expenses
  - Commissions & fees
  - Depreciation (software) and Section 179 (hardware and furniture)
  - Insurance
  - Legal and professional services
  - Office expenses
  - Rent or lease equipment
  - Repairs and maintenance
  - Supplies
  - Licenses
  - Travel, meals, and entertainment
  - Utilities
  - Wages
  - Other (education, STC dues)
  - Home office

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### *Expenses: Taxes*

- ▼ Types
  - Federal taxes
  - Social security
  - State taxes
- ▼ Amount to allocate
- ▼ Paying estimated taxes

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### *Expenses: Time Off*

- ▼ Amount to allocate
- ▼ Include vacation, holidays, sick time, marketing time
- ▼ What to pay yourself for time off

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### Expenses: Retirement

- ▼ Amount to allocate
- ▼ Types of plans
  - Roth IRA
  - SEP-IRA
  - Keogh plan

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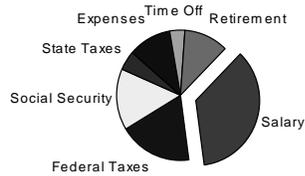
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### Expenses: What's left for you?

- ▼ Amount to allocate




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### What's left: Sample Comparison

	Consulting	Employment
Fed Tax	18%	18% (varies)
Soc Sec	15.3%	7.6%
State Tax	5%	5% (varies)
Retirement	11%	11% (varies)
Time Off	4%	n/a
Expenses	10%	n/a
<b>Total :</b>	<b>63.3%</b>	<b>41.6%</b>
<b>Remaining:</b>	<b>36.7%</b>	<b>58.4%</b>

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### *Income types*

- ▼ Contract income (1099)
  - hourly
  - project-based
- ▼ Employment income (W-2)

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### *Rate setting methods*

- ▼ Calculate based on amount you want to make and expected expenses
- ▼ Rule-of-thumb based on equivalent salary
- ▼ Charge what the market will bear

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### *Cash flow*

- ▼ Bills typically paid Net 30
- ▼ Project-based bids often paid 1/3 up front, 1/3 midpoint, 1/3 end
- ▼ Accumulate cash flow buffer

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## *Resources*

- ▾ Budgeting spreadsheet
  - <http://www.silcom.com/~yvonne/consult>
- ▾ Peter Kent, "Making Money in Technical Writing"
- ▾ Janet Ruhl, "The Computer Consultant's Workbook"
- ▾ CIC SIG e-mail list

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## *Questions?*

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