



So You Want to Be An Independent Consultant?

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Objective

To provide general information to help you answer the question:

"Is independent consulting right for me?"

Disclaimer

- I'm a programmer, not a lawyer / accountant / tax adviser.
- This is general information. Nothing in this presentation is intended as legal or financial advice.
- Much of the legal and tax information is U.S.-specific, and some can vary from state to state.

What is an Independent Consultant?

- Also referred to as independent contractor, freelancer, self-employed, or small business owner
- A non-employee who offers services to the general public (typically on the basis of a contract).
- U.S. IRS Definition:

"An individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done."

Types of Consulting Work

- Full-time (one client at a time)
- Part-time / as-needed
- Project-based

Advantages of Independent Consulting

- Autonomy – choose what you want to work on
- Variety – work with multiple clients
- Flexible Scheduling – set your own schedule, work when you are most productive
- Location Independence – remote work has exploded during pandemic
- Control – choose your own benefits, equipment, travel, etc.
- Income – get paid for the value you bring
- Stability – diversify risk across multiple clients
- Tax Savings – keep more of what you earn

Disadvantages of Independent Consulting

- Marketing – you have to find the work
- Requires discipline – must find internal motivation
- Work-life balance – no paid-time off
- Expenses – buy your own equipment, supplies, benefits, travel
- Administration – lots of non-billable tasks
- Inconsistency – workloads can be highly variable

The Many Hats of an I.C.

- IT Support
- Procurement
- Business Development
- Marketing
- Administrative Assistant
- Project Manager
- Travel Agent
- Legal Department
- Benefits Administrator
- Payroll Processor
- Bookkeeper / Accountant
- Janitor
- Oh yeah... and also the actual paying work!

Getting Started

Legal Entity Selection

- Sole proprietorship (i.e. self-employment)
- Corporation
 - C Corporation
 - S Corporation
- Limited Liability Company (LLC)

Getting Setup to Pay Taxes

- Apply to IRS for an Employer Identification Number (EIN)
 - Not needed for sole proprietorship
- Setup EFTPS (Electronic Federal Tax Payment System) account
- Determine requirements for unemployment insurance (varies state to state)
- Income tax withholding (federal, state, local)

Protecting your New Business

- Business liability insurance
- Professional liability insurance ("errors & omissions")
- Worker's compensation insurance (if required)

Managing Finances

- Business checking account
 - Separation of personal and business funds is essential!
- Business credit card
- Payroll service
- Accounting software / hire a bookkeeper

Looking Like a Real Business

- Logo
- Checks, letterhead, invoices, etc.
- Business Cards
- Internet domain, website, email
- Separate business phone line (free cloud-based service)
- Business mailing address (private mailbox)

Operating Your Business

Finding Work

- #1 source for work: Your professional network
- Recruiters and staffing agencies
- Freelancing platforms (Upwork, Toptal, Freelancer.com, etc.)
- Online job postings
- Watch industry news
- Advertise
- Cold call

The Power of Networking

- It really is "who you know".
- Build/maintain robust network – requires time & effort
 - Conferences and professional associations – volunteer!
 - LinkedIn and other social media
 - Maintain relationships with former coworkers, classmates, professors
 - Use virtual tools (Teams, Google Meet, WebEx, Zoom, etc.)
- Include people at all levels – peers, influencers, decision makers, recruiters, etc.
- Follow up whenever a lead or opportunity arises
- Ideally, start well before you go into business

How Much Should I Charge?

- Most contracts are based on an hourly rate.
- Rates depend on many factors:
 - Type of work
 - Level of expertise required
 - Consultants' prior experience
 - Quantity of work
 - Travel expectations
 - Payment terms
 - Third party intermediary
 - Competition
 - Availability
 - Flexibility provided to client
 - SAS licensing

What About Benefits?

- Health Insurance – costly, but available
- Retirement – Solo 401(k) can be very advantageous
- Paid Time Off – nope!
 - Factor this into your rate structure
 - Build reserves to even out cash flow

Benefits Example

An independent consultant can construct a compensation package like one provided through traditional employment.

	Emily the Employee	Connie the Consultant
Gross Income	\$100,000 annual salary	Bills \$75/hour, 32 hours/week, 46 weeks/year = \$110,400
Time Off	6 weeks (paid by employer)	6 weeks (unpaid)
Health Insurance	Paid by employer	Pays \$5,400 annual premium
Retirement Plan	Employer contributes \$5,000 to 401(k)	Contributes \$5,000 to Solo 401(k)
Taxable Income	\$100,000	\$100,000

Disclaimer: These numbers are arbitrary and should not be considered representative of anything in particular. This example is grossly simplified and omits many details.

Tax Advantage #1

- Profit = Income – Expenses
- Taxes paid on profits
- Increased expense = lower taxes
- Legitimate business expenses might include:
 - Computer hardware, office equipment, and software
 - Business travel
 - Telecom services – landline, mobile phone, Internet
 - Training, education, professional memberships
 - Employee compensation and benefits

Tax Advantage #2

- Only applies to S-Corp (or LLC with S-Corp tax election)

Scenario #1:

Income = \$100,000

Expenses = \$10,000

Salary = \$90,000

You pay ordinary income PLUS payroll taxes on \$90,000.

Scenario #2:

Income = \$100,000

Expenses = \$10,000

Salary = \$70,000

Profit = \$20,000

You pay ordinary income taxes on \$90,000, but payroll taxes on only \$70,000.

Tax Savings:

$$\$20,000 \times 15.3\% = \$3,060$$

Wrap-Up

The Question

"Is independent consulting right for me?"

The Answer

"It depends."

- Personal values
- Desired lifestyle
- Likes and dislikes
- Risk tolerance
- Versatility

- People skills
- Technical skills
- Family situation
- Personal finances
- Discipline and motivation

Contact Information

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