

Create a Career as an Independent Contractor

by Linda A. Hamilton

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In this era of time-saving technology, corporate restructuring, and company downsizing, many workers can expect to face layoffs, cutbacks in hours, or an unwelcome early retirement (and smaller pensions). Employees accustomed to regular paychecks based on full-time positions may suddenly find themselves with little or no income, while the bills keep coming. For workers in this position, survival is the main objective.

As the traditional notion of long-term job security fades, professionals at every level are recognizing the need to be flexible to meet the demands of a constantly changing job market. Some are keeping their skills sharp and their income steady by holding two or three different jobs at once.

One alternative to this hectic multi-career existence is to become an independent contractor. In such a capacity the work may be performed for outside agencies, or even a former employer. Becoming self-employed as an independent contractor brings a new kind of career freedom with flexible schedules, greater decision-making authority, and eventually, greater financial independence.

Such an attractive concept of work can entice employees to step out of their comfort zone of full-time employment. But ignorance about the risks and responsibilities associated with becoming an independent contractor can bring financial disaster and devastating consequences to the uneducated.

YOUR FINANCIAL RESPONSIBILITY

Carl Hughes, an attorney specializing in labor issues, says it is not uncommon to see the employee bear the consequences of an inappropriate contract for services. In attempts to eliminate the cost of payroll deductions and workers' compensation, employers often suggest that their employees become independent contractors.

The lure is the higher paycheck. "Employees see the larger chunk of money offered to them and they bite at it," explains Hughes. "But the consequences come down the road when there's an injury and health coverage isn't available, or they fail to do quarterly taxes and owe a big amount in April."

Hughes says the line between being an employee and an independent contractor can be razor thin. "The common rule for independent contractors to follow is this: If the business that you're contracting with retains the capacity to have dominion and control

over your work efforts, you are an employee. Whether or not they exercise it, if they retain the right to dictate how you do the job, then you're an employee.

"With an independent contractor, the only thing the company should retain control of is the end product."

One employee accepted his company's offer to work on an independent basis. Although called an independent contractor, he worked established hours in a company-owned office and used company equipment. The employer paid for advertising and retained the right to enter the office at any time to review completed work and financial records. The employer also shifted the payment of taxes, provision of benefits, and cost of operating expenses to the unaware employee. Had this worker been better educated or had the contract reviewed by an attorney, he could have saved himself from being cheated out of thousands of dollars by the employer.

Developing a Sound Contract

Just what are the rules to successfully work as an independent contractor? According to Hughes, each federal and state agency has its own guidelines, and each differs. The Employment Development Department, the Labor Commission, the IRS, and the Franchise Tax Board all have different definitions of an independent contractor. But there are some common questions you can ask yourself when developing a contract to work with a company on an independent basis.

Do I offer the same services to other companies or individuals?

Independent services should be offered to the company and to outside clients secured through personal advertising or networking. Flexible hours allow the contractor to work at more than one location and serve more than the clients secured through the primary contract, e.g., a former employer. However, if time constraints with the primary contract prohibit additional work with outside clients, the contractor could be considered a company employee.

Do I have my own business cards and license, and who pays for them?

Depending on the situation, a business license may be required to operate under your own name or a fictitious business name. The license and all other supplies for the business, including business cards and stationery, are the responsibility of the independent contractor.

Are withholding taxes taken out of my paycheck?

The IRS considers an independent contractor to be self-employed and responsible for calculating and setting aside taxes from each paycheck. On the average, 30 percent of gross profits should be set aside for taxes. From the remaining 70 percent, calculate the cost of supplies, overhead, and reinvestment into the business. Whatever is left may be considered take-home profit.

Some businesses follow the 60/40 rule: 40 percent gross revenue is considered profit while 60 percent is set aside to pay taxes and other costs associated with doing business. As a self-employed business person, taxes must be paid on a quarterly basis. This means keeping accurate records and meeting quarterly deadlines required by the IRS. Failure to pay quarterly taxes, or underpaying estimated amounts, could result in having to pay a penalty in April.

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Independent Contracting

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If I'm not paid on the basis of billing for my services by invoice, I am considered an employee.

Bill the contracted company for services provided based on an established price list in keeping with industry standards. If work with three clients totaled 10 hours and the base charge is \$30 an hour, bill the company \$300. However, if the employer requires that every transaction for the week be recorded, the monies collected be sent with the listing of services provided, and a company-issued check comes the following week, it should be presumed that the work was performed as an employee.

Do I receive any benefits?

As an independent contractor, healthcare costs become your responsibility. In some circumstances workers' compensation may be provided if the contractor works on site at a factory or construction site. Make sure this matter is clearly defined and documented before work begins, however. In general, health, dental, medical and vision care benefits are the sole responsibility of the independent contractor. While individual coverage is available, the price may be higher because you do not have the advantage of a discounted group rate. Remember to account for your healthcare costs in your overhead or profit percentage.

It's important to know who is responsible for healthcare costs. Employers who treat their "independent contractors" as employees may face heavy fines as a result of a healthcare claim. One example, according to Hughes, is that of beauticians or barbers who rent space in a shop. If the owner of the business dictates when they start work or assigns them clients, they are considered employees by the labor commission. But if one of the workers fails to claim a workplace injury through workers' compensation because he believed himself to be an independent contractor, the business owner could face fraud charges for misleading employees about their eligibility for workers' compensation.

A BRILLIANT BUSINESS MOVE

Despite the risks and responsibilities involved in becoming an independent contractor, the arrangement can be very rewarding. One clear advantage is the flexibility to balance one's personal and professional life, relieving some of the stress of traditional employment.

Working as an independent contractor can not only bring a sense of accomplishment and ownership of your skills, it can mean a lucrative career for those who understand the basics of time and money management as well as the legal responsibilities of working independently. If you're an adventuresome business person who loves to call your own shots, becoming an independent contractor might be a brilliant move for you.

Linda Hamilton has been a resume and business writer in the Sacramento area since 1985. You may write her at P.O. Box 1894, Fair Oaks, CA 95628-1894.

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