
“Out on Your Own? Five Basics for Getting Started”

Congratulations! After dreaming of your own business, you’ve finally committed yourself to leaving the safe harbor of corporate life and chart your own exciting course as a self-employed consultant! But now what? Without the familiar support system and structure of the corporate world, it’s all too easy to be overwhelmed by your growing list of questions and concerns: Do I need a business license? Should I incorporate my business? What do you mean I can’t just use my old business cards?

Don’t despair! Even the most seasoned consultant had to start somewhere and most will tell you that as they embarked on their new adventure, they quickly learned the importance of getting their proverbial ducks in a row. After all, the devil is in the details.

1. Getting Licensed

When starting your business, don’t forget the legal aspect of things. Most cities/municipalities in which you conduct business require that you register your business and pay an annual business tax. Part of this process includes registering your company’s name with the city clerk. The best way to learn about your city’s regulations is to do a web search on “(Your City) Business License.”

You may decide to create an identity for your business, which includes a company name. When conducting business under any name besides your own, you must register it with your local authority, typically the city your business is located in. This is generally referred to as DBA (Doing Business As) or Fictitious Name registration. Usually, your city’s business department or its Internet website are easily accessible sources to learn specific registration requirements and processes. Your local Chamber of Commerce or the Small Business Administration office near you will also be of help.

Once you have registered, the agency will typically give you information regarding additional requirements. These might include announcing your newly established fictitious business name for a specific period in local publications. Many city registration groups assist you by providing lists of announcement alternatives. You may also be required to obtain zoning permits, a business license and/or pay applicable city taxes.

You will need to determine the specifics for your area. It is your responsibility to investigate and follow the required guidelines for your city. If you are uncertain regarding the process, you might consider consulting a small business attorney in your town.

2. Got Insurance?

Often when you work with larger companies, they will require consultants to have general or business liability insurance. This insurance provides you protection against claims of bodily injury or property damage for which your business may be liable. Large companies often require that you carry this type of insurance when consulting or contracting with them. By contracting with you, they do not want to be held liable for claims against you and want proof that you carry this insurance.

You can find insurance through many insurance companies. There are several companies which offer small businesses general liability policies or your home insurance may offer a small business liability policy. The cost varies with the type of service you perform.

Professional Liability insurance, also known as Errors and Omissions insurance, provides protections against claims as a result of error or omission in your professional work. This type of insurance may be critical, depending on the type of work you do. For example, if you do technical work, programming, financial work, or engineering work, you will want to look at this type of insurance. It's important for you to evaluate whether your type of consulting can directly impact the companies you work for in a significant financial, safety or legal manner.

3. Consultant, Prove Thyself

Over the past several years, the IRS has clamped down on the requirements for companies paying people as individual contractors or consultants. As a consultant, companies will pay you without deducting any taxes and report what they paid you on a 1099 form at the end of the year. Since this makes you responsible for submitting your taxes directly to the IRS, the IRS wants to make sure it gets its money. So they've implemented strict requirements for being classified as a

consultant.

Creating a corporation for your business automatically exempts you from proving that you are an independent consultant; however, if you are choosing not to incorporate, you can still prove you are an independent consultant.

Most of the IRS's criteria center around demonstrating that you are a business providing your services to the general public by having business cards, a web site, or other collateral that advertises your services. Being listed in a member directory of a professional organization also shows that you provide your services to the general public.

The IRS focuses very closely on consultants working from client sites. Make sure that you have a dedicated office (even if it is in your home) where you've invested in your own equipment from which you do most of your work. This doesn't prohibit you from working at a client site, but don't let an office at a client site be your primary work place. Stipulate in your contracts that you work from your office and will be on site as needed.

One of the best ways to differentiate yourself as an independent consultant is to charge project fees or make payments contingent on deliverables. You need to demonstrate that you are providing specific expertise and that the company is not providing you day-to-day direction or paying you hourly or a salary like an employee.

Finally, having more than one client at a time and not letting any one client be more than 50% of your annual revenue further proves that you are a consulting business and not an employee disguised as a contractor.

Most larger companies will have you go through an evaluation with their purchasing or HR department before a contract is signed and a purchase order issued for work. The evaluation is commonly known as the "20 questions" list for classifying you as a consultant vs. an employee. You'll need to complete their questionnaire and then provide copies of a business license, your business card, a print out of your web site home page or copies of your collateral to prove you are an independent business. You may also have to provide proof of liability insurance and name the company on the policy.

Whether a company requires this proof or not before signing a contract, have this information available and ready as needed. It is the best way to establish yourself as a legitimate business.

4. To Incorporate or Not, That is the Question...

Once you've decided to start a business, one of the next decisions that must be made is choosing a form of ownership. The choice depends on your short and long-term goals and the eventual exit strategy of the founders. To make the best choice for your situation, consult a lawyer.

The question of whether to incorporate or not is usually focused on liability. For professionals such as accountants, the corporate form of ownership might protect them from liability but does not shield them from personal liability or from their own or subordinates errors and omissions. There are two forms of corporations, "C" and "S" corporations, and they differ in the treatment of federal and state income tax laws. "C" corporations are taxed once at the entity level and again at the individual ownership level when earnings are distributed. "S" Corporations are taxed at only the individual levels, although there are some exceptions including nominal tax rates in some states. Both allow the corporation to pay all expenses including health care and payroll.

Limited Liability Corporations (LLC) are available in every state and are a relatively new breed of entity. They offer the liability protection of the corporate form while allowing for the owner to choose to pass income through and be taxed at the individual level, rather than completing both a corporate and individual return. Again, they do not shield from personal liability or from errors and omissions. LLCs are a relatively new form of ownership and the effectiveness of the liability protection of an LLC has yet to be extensively tested in the court system. In addition, some states impose a gross receipt tax on the LLC. In California, LLCs are taxed a minimum tax of \$800 as well as a gross receipt tax that goes up to \$11,790, starting at \$900 for \$259,000 in revenue – in addition to the additional income taxes owed at the personal level.

Sole Proprietors are the least complex and the most common form of business ownership. They are usually the easiest choice. The sole proprietor has unlimited liability for the debts of the enterprise. Many sole proprietors purchase general business liability insurance for this reason. The profit and loss of the business is reported directly on the individual tax return of the owner, and there are no other required tax returns. Health care premiums are completely deductible, as are business expenses and half of all self-employment (social security and Medicare) taxes.

The easiest way to think about the form of ownership you will choose is to determine how much protection do your personal assets need? Do you have potential liability in your line of work? Is it insurable through business liability insurance? If not, would a corporate entity give any added protection?

5. Outsourcing Support Functions

Unless your area of expertise is one of the below, you may want to build a solid support team that enables you to focus on what you do best.

Tax Accountant

Of all the professional services to consider when you first begin your consultancy, a tax accountant can be most beneficial when it comes to preparing a solid financial plan for your business. A tax accountant can help you to understand things like a home-office deduction, clarify business office expenses and most importantly, what strategies to take if you don't have enough money to pay your taxes. In addition, a tax accountant can keep you current on how new tax laws will affect you as you set up your business and explain the various tax forms that will be required of you during filings. For those consultants who are being paid on a 1099-basis, a tax accountant will advise on the most efficient way to file estimated quarterly taxes. When you receive a 1099, you will need to make sure that you are saving approximately half of that income for the IRS. Being on top of the IRS is critical when you are an independent consultant. It's important to know when you need to file and to understand the implications if you don't file on time. Keeping a steady cash flow in a bank account will make you feel much more comfortable as you continue projects, and a tax accountant can help you to get organized on a quarterly or bi-annual basis so that you can manage your payments accordingly.

Attorney

An attorney is useful for contracts and negotiations, although many companies today use an in-house attorney to provide standard template contracts when using an independent consultant or contractor. If you do have the budget to hire an attorney, find someone who is local and who is familiar with contract work. When first starting out, you may work with companies that provide existing contracts for consultants that need review so that you can protect your payment schedule, terms and your services. It doesn't hurt to have an attorney review contracts before you start a

project. You may also choose a legal service; for a monthly fee, these services provide you access to legal help for items such as contract review, letter writing, or questions when you need help.

Virtual Assistant

Although once considered a luxury, many consultants are finding that virtual assistants (either part or full-time) are helping their businesses to grow, allowing them to focus on getting new clients on board. Virtual assistants today can do everything from administrative tasks to bookkeeping and can essentially help to take the maintenance and paperwork off of your plate. Important tasks such as billing a client, setting up a key meeting or finishing up that proposal can seem daunting when you're juggling 2-4 clients at once. A virtual assistant can provide immediate support and give you the peace of mind that the tactical work is getting done for your business, even if you don't have the time to do it!

SIDEBAR:

Learn From the Pros
<p>Jump-start your entrepreneurial business with pragmatic and straightforward advice from the experts who have been there and done it themselves. With a focus on building success through networking and nurturing long term relationships, these books can help you find that first client:</p> <p>Getting Started in Consulting – Alan Weiss Build the foundations of your consulting business with this primer on everything including office machinery, legal requirements, fees, marketing and sales. There are invaluable tips on creating winning proposals – how to build conceptual agreement, and then document it in your value-based proposal.</p> <p>The One Page Business Plan – Jim Horan Create a concise, master plan that will guide you to concrete results towards the business vision you so passionately desire. Through exercises and worksheets, you will quickly create: a vision statement, graphically describing your business; a mission statement that reflects your passion</p>

and the reason the business will exist; objectives that specifically describe what must be accomplished; and plans that clearly state what actions must be completed and when.

InfoGuru Marketing – Robert Middleton

Define your business, package it for your target market, devise ways to reach and stay in touch with clients, win business and repeat business from your terrific performance. The marketing guru for service professionals shares his expertise in this terrific manual written like course.

Work a chapter at a time to create successes and immediate results.

Endless Referrals – Bob Burg

Turn casual contacts into solid sales opportunities with relationship-building techniques. You will learn how to: turn every contact into a sales opportunity, identify the most profitable contacts, network the Internet, take the intimidation out of telephoning, overcome fear of rejection and position yourself as an expert.

Selling to VITO - the Very Important Top Officer - Anthony Parinello

Learn the tactics to get appointments with top decision makers. Understand their communication preferences and needs, as well as those of middle level managers and how to deal with gatekeepers. Get into new accounts at the top and increase the size of every sale.

The E-myth Revisited – Why Most Small Businesses Don't Work and What to Do About It - Michael E. Gerber

Work on your business, not solely in it. Learn the assumptions regarding starting your own business and how they get in the way of running it effectively. Understand the different stages of the small business development and how to grow in a productive, predictable way.

About WIC

Women in Consulting is a dynamic organization of over 200 seasoned professional consultants in more than 30 specialties, ranging from engineering to financial advising and marketing. WIC's dual mission is to provide companies seeking consultant talent with access to a premier resource

of top tier consultants and to provide a forum for consultants to share information and to effectively manage and grow their consulting practices. A non-profit corporation, WIC was established in 1998 as a collaborative community to foster successful consulting practices for its members. For more information, visit www.womeninconsulting.org.