

Independent Research Consultants: Challenges and Opportunities, Thrills and Chills

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Outline of Remarks

A) First Steps

- 1) Decide what type of consulting/independent contractor service will fit the business environment that you know the best (i.e., information broker, law library management, special consulting projects such as managing moves, etc.) Suggestion: look up other information processors in the area and talk with them about their experiences, areas of expertise, and their clients (i.e., try not to poach!). See how others in the area can compliment your skills and how you might interact by filling a niche. Or check to see if others have surplus accounts for which they would be willing to provide you a referral.
- 2) Know the market potential of the area you are targeting – i.e., do you have links with legal administrators in area law firms, are there lists maintained by local libraries or librarian groups of consultants, etc. to which you can be added, are you known to local vendors, or sales representatives who are working with local firms or organizations and who are willing to provide samples or free passwords for you to stay abreast with innovations or changes?
- 3) Do your research as to prevailing rates of hourly pay for equivalent services in your area (local salary surveys, national surveys by organizations such as AALL, SLA or AIIP). Also, **UNDERSTAND YOUR OWN POTENTIAL COSTS**, for database subscriptions and use, so that you understand how to price your work, and make certain you can price it competitively and accurately.
- 4) Do some basic business planning, i.e., review bookkeeping or business records software, find an accountant or financial advisor to work with you in keeping your taxes and other expenses current and up-to-date.

B. Financial Planning Before Going Out on Your Own

- 1) Calculate what you need to earn in order to meet your current expenses, including paying your own benefits, such as medical insurance and hopefully retirement or pension accounts. When considering what to charge as an hourly rate, remember that you will have to factor into this the additional costs of “down time”, i.e., costs for your time in generating bills, in bookkeeping, in filing taxes and handling employees wage statements and taxes (if you use employees), or simply to afford a sick day or vacation. On average, you should consider that for every four days per week worked, you will have to spend at least 6-8 hours in “administrative time”. Your rates should reflect the fact that you will need an additional 15% to 20% over what you were accustomed to receiving as a paid employee.
- 2) It is advisable to have at least one or two potential clients lined up initially. Or else have a capital reserve that will meet your start-up expenses for at least six months, hopefully nine months. Keep in mind that your creditors need to be paid even if you are not! The cushion will allow to establish a reputation and credibility as a businessperson, while working on building the client base. Always, try to keep a reserve of at least two months expenses in the bank, to handle slow periods.
- 3) While most banks or lending institutions will be happy to open a business checking account for you, obtaining a credit card to use for business expenses is harder. Many banks require from one to two years of operating experience (and of bills paid on time!) before they will issue this for your business. However, a business checking account (consider getting an FEIN from the IRS, which should be printed on your checks – see licensing/taxes section below) is an important step for keeping your personal and business expenses separate. Talk with a small business account representative at your personal bank to get details about how these business accounts are managed, and what other services (such as payment of monthly IRS 941 employee tax deposits!) can be provided.
- 4) If you are planning to operate out of your home, carefully investigate the tax implications for this, as well as for amortizing capital improvement deductions (an accountant or financial planner can help with this). Remember that you will probably have to purchase some office equipment such as a separate phone/fax, a photocopier/scanner, postage meter, etc. At some point in your business, you will have to consider the costs for replacing or upgrading your computer or internet access technology at your job site – a minimum of every 4 years (if you are lucky).

C. Licensing and Tax Considerations

- 1) Most states have business licensing process – check out what will be required in your state and also within the local area where you will operate your business. Once you set up a license, the the state and local taxing authorities will not be far behind, and you will need to set up accounts for paying any business taxes that accrue on a timely basis. (Again, an accountant – another business expense, but well worth it – can help with this part.)
- 2) If you want to use part-time employees either for on-going projects with particular clients or for special, short-term projects, you will need to set up a Federal Employers Identification Number (FEIN) with the IRS. Most states also have a requirement for you as an employer to pay for unemployment compensation insurance premiums, income taxes, and disability or workers' compensation. Locate the responsible agencies in your state (your business license will probably lead them to YOUR door!) and make certain that your accounts are set up. There is a waiting period for these accounts to become active, so make certain that you allow at least 30 days before actually hiring and paying your first employee, to be in compliance with the filing requirements in your state. Also, you will need to pay federal Social Security and Medicare payments for your employees, as well as federal income, through quarterly filings with the IRS. This is done with a 941 form (deposits for these amounts may be required on a monthly or more frequent basis. As source of information about these can be found in Publication 15, or Circular E, from the IRS.)
- 3) There are filing and payment responsibilities for taxes generated by your business' revenue. Make certain that you understand the requirements for filing and payment at the federal, state (often quarterly), and local levels (normally annual) to make certain that your business maintains its tax accounts as current. Check with the city's revenue or finance department for filing/licensing requirements. Once you license your business with the city or state, you will normally receive notices about license renewal fees or taxes due on a regular basis.
- 4) If you are operating as a sole proprietorship (i.e., single owner and not incorporated), your federal taxes are calculated on a Schedule C attachment to your annual IRS filing. If incorporate or if you decide on some other type of business structure, USE An ACCOUNTANT, at least initially, to set up tax filing schedules and to walk you through your responsibilities as a business operator.

Brief Bibliography on Operating as an Independent Consultant

Building and Running a Successful Research Business: A Guide for the Independent Information Professional, by Mary Ellen Bates, Reva Basch. CyberAge Books, c 2003.

The Information Broker's Handbook, 3rd ed. By Sue Rugge and Alfred Glossbrenner. MacGraw-Hill, 1997 (Dated, but still a good resource for practical information!)

Start and Run a Profitable Consulting Business: A step-by-Step Business Plan, 6th ed., by Douglas A. Gray. Self-Counsel Press, 2004.

HINTS FOR WORKING WITH SUB-CONTRACTORS:

- 1) Get at least an initial agreement in writing, as to:
 - a) what is specifically expected, and the time/budget that is required for the project/job
 - b) clearly outline payment and billing requirements that you will need from the sub-contractor, for hours, work, etc. Be specific about when payment is due, etc.
 - c) If a specific job, outline how the results/report is to be delivered, and when.
 - d) If using on-line accounts, be specific about whose accounts are to be used (yours or the sub-contractor's?)
 - e) Include a clause re: client confidentiality, which the sub-contractor is required to respect
 - f) Include a non-compete statement, which indicates that the sub-contractor is working with your client(s) on your behalf

- 2) State in your agreement that the sub-contractor is an independent contractor and make certain that your language conforms to the IRS' standards. (For more information this, to to the www.irs.gov site and search statement regulations that distinguish between employee status and independent contractors.) The person you are sub-contracting with should have their own business license, etc, if it is possible for you to verify this. The sub-contractor will be responsible for reporting their income to the IRS and to other agencies. If the sub-contractor is paid more than \$600.00 in a taxable year, you should prepare a 1099 form for their business, with a copy to the IRS to report income paid to them during that period.

HINTS FOR USING EMPLOYEES:

Because of the paperwork and effort involved in training, supervising and maintaining part-time (or other types of) employees, the easiest path is to only consider temporary employees who work on specific projects with a limited time span.

- 1) In hiring employees, make certain that you are in compliance with current standards for hiring, selecting, and if necessary, terminating employees who are not meeting your stated requirements. Be careful how you word your job description and be consistent. Also remember that you are obligated to verify identify (and to document your efforts) and that you will need to protect the confidentiality of the information you collect on a potential or actual employee. If your state has a

business records privacy requirement, be aware of how you must handle tax records and other forms with employees' names, SS#, etc.

- 2) Set up employer accounts for payment of income taxes, social security and Medicare with the IRS, as well as with state agencies that monitor unemployment and workers' compensation programs. Allow yourself sufficient time to get the accounts set up before hiring your first employee.
- 3) Set up a system for reporting time worked, and be specific when this "time sheet" is due and when you will be paying the employee, based on the time submitted. Make certain that you send documentation with each paycheck which indicates what deductions are applied.
- 4) Make certain that your tax deposits for employees are made promptly to the IRS and that you maintain the quarterly filing requirements for state income tax, if required, as well as pay the unemployment insurance premiums, etc.
- 5) Always document everything! If an employee leaves, try to arrange to put an exit interview in his/her file.