

## So You Want To Be An Independent Consultant: 2021 Edition

Joshua M. Horstman, Nested Loop Consulting

### ABSTRACT

While many statisticians and programmers are content with a traditional employment setting, others yearn for the freedom and flexibility that come with being an independent consultant. While this can be a tremendous benefit, there are many details to consider. This paper will provide an overview of consulting as a statistician or programmer. We'll discuss the advantages and disadvantages of consulting, getting started, finding work, operating your business, and various legal, financial, and logistical issues. The paper has been recently updated to reflect the new realities of independent consulting in 2021 and beyond.

### INTRODUCTION

Each of us must choose for ourselves the path we follow through life, including the course our career takes. It's an ongoing process that involves numerous decisions, both large and small. These decisions may be influenced by many different considerations. Factors that impact our career choices might include our personal interests, strengths and weaknesses, skills and abilities, priorities and values, desired working style and setting, geographic preferences, financial situation, family circumstances, and more.

There are many ways to achieve one's career goals. One such way is through independent consulting. This type of arrangement has both advantages and disadvantages, benefits and costs. It's a great option for some people, but it's not the right choice for everyone. The objective of this paper is to provide general information about independent consulting to help you decide if it might be a good fit for you.

### 2021 UPDATE

Much has changed in the world since this paper was originally written in 2018. Seemingly overnight, the COVID-19 pandemic brought about big changes and new challenges in how we do business. The good news is that independent consulting is alive and well. In some ways, there's never been a better time to strike out on one's own. While most of this paper remains unchanged, a few updates and additions have been made to better reflect the times in which we now live.

### DISCLAIMER

Before we proceed with our discussion of independent consulting, it's important to clarify two matters.

First, as the author, I am a statistical programmer, not an accountant, lawyer, or tax advisor. The material in this paper is provided as general information and is not intended as legal or financial advice. Indeed, it would be impossible to give such advice in this context as so much of it is dependent upon your specific situation.

Second, many of the legal and tax topics discussed are somewhat specific to working in the United States (U.S.). While some concepts may apply more broadly, it is imperative to carefully research the laws, regulations, and customs in your own jurisdiction before setting up shop as a consultant. This applies even to readers within the U.S. as many legal and tax details vary from state to state.

### INDEPENDENT CONSULTING BASICS

#### WHAT IS AN INDEPENDENT CONSULTANT?

The term "independent consulting" can be a bit ambiguous. Sometimes the independent consultant may be referred to as an independent contractor, freelancer, self-employed individual, or small business owner. These terms can have different meanings, so let us define precisely what we mean.

## **Common Definition of an Independent Consultant**

An independent consultant is a non-employee who offers services to the general public, typically on a contractual basis. By “non-employee”, we mean that the independent consultant is not a legal employee of his client, nor of another party who manages his work. An independent consultant may be self-employed or may choose to be an employee of his own company (and therefore not self-employed in the strict legal sense of the term). Both options can have different tax consequences, as we discuss later.

## **IRS Definition of an Independent Consultant**

The U.S. Internal Revenue Service (IRS) stipulates that “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” (Independent Contractor Defined). It’s important for an independent consultant to conduct business in a manner consistent with this directive. Failure to do so could potentially result in the IRS reclassifying an independent consultant as an employee of another party.

The IRS applies several rules or tests to determine whether a relationship between a worker and a business constitutes employment. These rules are classified into three categories: behavioral, financial, and the type of relationship.

Behavioral elements include factors such as the degree to which another party controls where, when, and how work is done. Financial considerations pertain to who controls the economic aspects of a job, such as the purchase of tools and equipment or the responsibility for expenses related to the work. Finally, the IRS looks at the type of relationship a worker has with a business, such as whether a written contract exists, the duration of the relationship, and any benefits that are provided. Much greater detail is available from the IRS website (Independent Contractor (Self-Employed) or Employee?).

## **TYPES OF CONSULTING WORK**

Despite the constraints discussed above, there are many different forms a relationship between an independent consultant and a client can take. We’ll examine three common types of consulting relationships: full-time, part-time, and project-based.

A full-time consulting engagement most closely resembles traditional employment. In this arrangement, the consultant works full-time for a single client and is typically paid by the hour. In many cases, a client requests a full-time engagement when they need to augment their internal staff, at least temporarily. Despite the similarity to full-time employment, it is possible to take this kind of work while still satisfying the IRS criteria for an independent contractor. It is important to note that the term “full-time” is just a general description and does not preclude the independent consultant from taking additional clients if desired. The term simply means that the consultant is taking on a quantity of work or responsibility that would be similar to that of a full-time employee of the client.

In a part-time consulting engagement, the independent consultant dedicates only a portion of their work time to a specific client. The amount of time can be pre-determined (e.g. a fixed number of hours per week) or can be highly variable, ebbing and flowing with the needs of the client. In the latter case, there can be periods during which the time commitment approaches or exceeds full-time mixed with periods during which there is little to no activity. By providing this sort of “on demand” or “as needed” availability, the independent consultant can provide tremendous flexibility and value to a client.

Project-based consulting differs from the two types above in that the consultant is paid a fixed amount of money for completing a certain project or set of tasks instead of being paid by the hour. This approach is a double-edged sword. It can be highly lucrative for an efficient consultant who is able to complete work quickly. On the other hand, if the work takes longer than expected, it can greatly diminish the consultant’s effective hourly rate. For this reason, it’s important to establish the scope of the work upfront and define the requirements well.

## ADVANTAGES AND DISADVANTAGES OF INDEPENDENT CONSULTING

Working as an independent consultant differs from traditional employment in many ways. Independent consulting can provide significant benefits but also introduces new and different challenges when compared with regular employment.

Whether the benefits outweigh the challenges depends to a large degree on individual preferences and interests. For example, some people may be put off by some of the administrative tasks and record-keeping necessary to run a business, while others may not be bothered by it at all.

We'll look at a list of some possible advantages and disadvantages of independent consulting. It's up to the reader to decide how each of these factors figure into their overall analysis of the costs and benefits of independent consulting.

### Possible Advantages of Independent Consulting:

- **Autonomy** – To a large extent, independent consultants are free to pursue the types of projects and engagements that interest them, within the bounds of what's available in the market.
- **Variety** – Independent consultants often service multiple clients, either simultaneously or sequentially. Working on different projects with different people can be invigorating and reduce the chance for boredom.
- **Flexible Scheduling** – An independent consultant can typically choose where and when to work. Schedules can be adapted to suit the consultant's preferences, priorities, and desired lifestyle. Some may like to get an early start, while others are more productive late at night.
- **Location Independence** – Even before the COVID-19 pandemic, consultants were often able to work from a location of their choosing, whether that was their home, an office, or even a coffee shop. With the explosion of remote work in response to the pandemic, this trend has accelerated. Clients are more accustomed than ever to using technology to collaborate virtually. As a result, an independent consultant can essentially live and work anywhere they like.
- **Control** – An independent consultant is essentially running their own business and therefore has complete control over things like selecting a health insurance carrier, choosing office equipment, and making travel arrangements.
- **Income** – Successful consultants have the potential to earn substantially more money than they might otherwise receive through traditional employment, even after adjusting for overhead, benefits, and other costs. Of course, this is not guaranteed, and depends greatly on the skill and reputation of the consultant as well as the market demand for the services being offered.
- **Stability** – Consulting for multiple clients can reduce the risks associated with a sudden loss of income. Employees are sometimes laid off with little or no notice. While a consulting engagement can also be terminated abruptly, a consultant with a diversified portfolio of engagements is not as severely impacted.
- **Tax Savings** – In the U.S. there are several tax advantages that may be available to the independent consultant depending upon the business structure and other factors. The details are beyond the scope of this paper, but the savings could be significant in some situations.

### Possible Disadvantages of Independent Consulting:

- **Marketing** – Independent consultants must find their own work, which can require significant time, money, and effort, especially when first getting established. This can include traditional advertising, online searches, cold calling, professional networking, and other activities.

- **Requires discipline** – Someone who needs a boss breathing down his neck to get anything done may find it difficult to be successful on their own. Independent consultants must be internally motivated to find and complete work.
- **Work-life balance** – Independent consultants typically do not receive paid time-off. As such, the consultant may find it difficult to take enough holidays, sick leave, or vacation time to achieve a balanced life. It's incumbent on the consultant to make time for the rest and relaxation needed to stay energized and in good health.
- **Expenses** – An independent consultant will incur many expenses that would typically be paid for an employee by an employer. These can include benefits like health insurance and a 401(k) plan, office supplies, computer software and hardware, travel costs, and much more.
- **Administration** – An independent consultant is essentially running his own business. This includes many administrative tasks which must be done (or delegated) such as bookkeeping, tax preparation, invoicing, contract negotiation, marketing, booking travel, purchasing, and more.
- **Inconsistency** – Sometimes it's feast or famine for an independent consultant. One month may involve extensive overtime to complete concurrent requests from multiple clients, while the next month may be slow. Even if overall income is sufficient, the timing of payments can be irregular.

## THE MANY HATS OF THE INDEPENDENT CONSULTANT

As mentioned previously, an independent consultant is running a business. Running a business requires a lot of time and effort. There are many tasks involved that don't directly produce any income but still must be done. Large companies may have separate employees or even entire departments dedicated to some of these functions, but an independent consultant is responsible for them all.

Some of these tasks can be delegated by hiring a third-party. Ultimately, however, the consultant still must see that they are done properly. Below are just some of the many hats the independent consultant may wear.

- |                            |                           |
|----------------------------|---------------------------|
| • IT Support               | • Travel Agent            |
| • Procurement              | • Legal Department        |
| • Business Development     | • Benefits Administrator  |
| • Marketing                | • Payroll Processor       |
| • Administrative Assistant | • Bookkeeper / Accountant |
| • Project Manager          | • Janitor                 |

All of that is in addition to performing billable client work that actually generates income for the business.

## GETTING STARTED

### LEGAL ENTITY SELECTION

One of the first steps in starting as an independent consultant is establishing an appropriate legal entity for your new business. There are several from which to choose, and the choice can have significant legal and tax implications. You should consider consulting an attorney and/or accountant on this matter.

In the U.S., this step is optional. You aren't required to setup a legal entity. You are considered a sole proprietorship (or a partnership for a business with multiple owners) by default if you don't elect to form another type of entity.

A sole proprietorship does not require any paperwork to setup, nor is any separate tax filing required. Instead, business expenses and income are reported on the owner's personal tax return as self-employment income. While this is a very simple way to do business, it may not provide the most favorable tax treatment. In addition, it may leave the owner's personal assets exposed to the liabilities of the business (Sole Proprietorships).

An independent consultant may wish to consider forming a corporation (either a C corporation or an S corporation) or a limited liability company (LLC). The LLC is a relatively new entity that can be simpler to setup and maintain than a corporation. An LLC with a single owner can be treated as a sole proprietorship for tax purposes (the default), or the owner can elect to be taxed as a corporation. In some situations, these entities may provide liability protection for the personal assets of a business owner acting in good faith. Additionally, there can be tax advantages associated with appropriate use of a corporation or LLC.

The choice of legal entity depends greatly upon the nature of the business, the owner's financial and tax situation, and applicable state and local laws. It is beyond the scope of this paper to provide a detailed analysis of all the options. More information is available from the IRS (Business Structures).

The process to create one of these entities varies from state to state within the U.S. In many states, it can be done online in just a few minutes for a nominal fee. However, if you are not sure how to proceed, it would be wise to seek professional advice. Don't be afraid to spend a little money to get guidance as making a good choice has the potential to save you far more money later.

### GETTING SET UP TO PAY TAXES

Benjamin Franklin quipped that "nothing in this world can be said to be certain, except death and taxes." While it's theoretically possible for a business to persist indefinitely, taxes will still have to be paid in most jurisdictions.

In the U.S., federal taxes are paid through the Internal Revenue Service (IRS). In order for your business entity to pay taxes, it needs an Employer Identification Number (EIN). You can obtain this number from the IRS through its website. The process is simple and costs nothing. If you opt to operate your consulting business as a sole proprietorship, you don't need an EIN. In that case, your personal Social Security Number (SSN) will serve to identify the business to the IRS.

The next step in preparing to pay U.S. federal taxes is to create an account with the Electronic Federal Tax Payment System (EFTPS). This system can be used to electronically pay any taxes owed to the IRS, either by you or by an agency (such as an accountant or payroll company) acting on your behalf. There is some delay before the account is active, so be sure to start this process well before any taxes are due.

There are several types of taxes your business may be required to pay. One such type is unemployment taxes, which may be owed at both the federal and state levels. These are often referred to as FUTA and SUTA, respectively. FUTA is paid to the IRS. SUTA is paid at the state level, but the requirements vary. Contact your state government for more information.

Depending how your consulting business is structured, you may also be required to submit payroll taxes. These include taxes that an employer withholds from an employee's paycheck and remits to the IRS on the employee's behalf as well as the employer's share of Social Security and Medicare taxes. The

required deposit schedule for these taxes depends on the size of your business. Be sure you know which schedule to use to avoid penalties (Employment Tax Due Dates).

Payroll taxes typically apply when the business is paying you, the consultant, as an employee. If you are reporting your business income as self-employment income, you would pay self-employment tax when you file your personal return. However, it may still be necessary in that case to submit quarterly estimated tax payments to avoid an underpayment penalty when you file your return at the end of the year.

If operating outside the U.S., consult the relevant taxing agencies to determine what is required. Tax policies and procedures vary widely throughout the world. Some locales within the U.S. may also have requirements beyond those listed above. When in doubt, seek guidance from an attorney, accountant, or other tax professional.

## **PROTECTING YOUR NEW BUSINESS**

Individuals typically purchase insurance policies on their home and automobiles to mitigate the risk of large and unexpected expenses in case of a catastrophic loss. Similarly, business owners should consider what insurance protection may be needed to protect their business. Some clients will contractually require that an independent consultant carry certain types and amounts of insurance coverage. Be prepared to provide proof of insurance upon request.

General business liability insurance will provide coverage in case your business is held liable for bodily injury or property damage. It can also help defend your company in case of certain types of lawsuits, such as slander, libel, or a breach of data security. Before purchasing a specific policy, read the policy documents thoroughly to be sure you understand what is covered and what is not.

Professional liability insurance (sometimes called “errors and omission” or E&O) can provide coverage in case of a mistake made in the course of your professional activities. For example, if you accidentally write incorrect statistical code that causes harm to a client, this type of policy can help.

There are also other types of insurance you may need. If your consulting business owns a vehicle, you will probably need a commercial auto insurance policy. Depending on local requirements, you may need to carry a worker’s compensation policy to cover your employees against job-related injuries and illness.

## **MANAGING FINANCES**

Anyone planning to operate a consulting business should seriously consider opening a separate business checking account. Most financial institutions offer business checking accounts, but many require documentation to verify the status of your business so be sure to confirm the requirements in advance.

It’s important not to commingle business and personal funds. Transactions between a business and its owner should be done “at arm’s length” in the same manner a transaction would be done with another third party. Personal expenses should not be paid with business funds. Rather, funds should be transferred from the business account to a personal account as part of a documented transaction such as a wage, salary, bonus, dividend, reimbursement, or other distribution as appropriate.

A separate business credit card can also be a handy financial tool for the independent consultant. Credit cards are often easier to use when booking travel, purchasing supplies and equipment, or paying other business expenses such as shipping charges or conference registration fees. Be sure to pay the business credit card bill using funds from the business checking account.

If an independent consultant is considered an employee of the business (as opposed to being self-employed), the business should give the employee a regular paycheck, just like any other business would for its employees. While paychecks can be hand-written and withholding taxes manually computed, it may be worthwhile to utilize software or a full-service payroll service to handle these cumbersome tasks.

Finally, an independent consultant may wish to retain the services of a professional bookkeeper or accountant to organize and track the business’s finances and prepare financial statements and tax returns. Although these tasks might be accomplished without professional help in a simple consulting

business, many independent consultants simply do not like these chores or wish to spend their time another way.

## **LOOKING LIKE A REAL BUSINESS**

We've mentioned that an independent consultant is running a business. As such, the business should look like a real business. Consider adopting some of the following elements to give your business a professional look and feel:

- Logo – Hire a designer to create a custom logo for your business.
- Internet domain with email addresses – your communications will seem more professional when they come from your custom domain rather than from a Yahoo or Gmail account.
- Website – A well-designed website can add credibility to your business and provide information about your services to potential clients.
- Business cards – These can be printed inexpensively online or at a local printer.
- Letterhead and invoices – Create standard templates that incorporate your logo to use in business communications.
- Business phone line – Consider a business phone number separate from your own mobile phone. Free or low-cost cloud-based services make this very easy.
- Business mailing address – Home-based consultants may wish to rent a private mailbox (not a post office box) with a non-residential address to appear more legitimate and protect the privacy of their home address.

Utilizing the strategies listed above can make your business virtually indistinguishable from the larger companies against whom you are competing. Nobody need know that your company is just you working from your basement.

## **OPERATING YOUR BUSINESS**

### **FINDING WORK**

Once an independent consultant has a business up and running, the next task is to find work. This is an ongoing effort for the independent consultant throughout the life of the business. Even when working under a longer-term contract, it's advisable to be thinking about where the next contract might come from.

There are many avenues the independent consultant can take to find work. One of the best and most effective methods for finding work is through professional networking. A robust professional network is so vital to the independent consultant that we will dedicate a separate section to it below.

Another means of locating clients is through the services of recruiters and staffing agencies. They typically have connections throughout an industry and can help match up an independent consultant with a suitable client. Naturally, bringing a third party into a deal comes at a cost, often in the form of a slightly lower rate. The independent consultant is essentially paying for access to someone else's professional network. However, this can be a good option, especially when an independent consultant is starting out and has not yet built an extensive professional network of his own.

Freelancing platforms are also becoming an increasingly viable way of finding work. These platforms have proliferated as the COVID-19 pandemic has accelerated the trend towards freelancing and independent consulting. Services such as Upwork, Toptal, Freelancer.com, and many others provide a marketplace for independent consultants to connect with companies in need of their services.

An independent consultant unable to find work through their own network might turn to online job postings to locate potential clients in need of the consultant's services. One might also identify potential clients by watching industry news to learn who might have a need or even by simply cold calling potential clients. While these can be viable methods of finding work, they can also be very time-consuming and frustrating and should probably be the consultant's last resort.

## **THE POWER OF NETWORKING**

As mentioned above, the preferred method for an independent consultant to find work is through professional networking. There really is truth in the old saying that “it’s not what you know but who you know.” Rather than taking their chances with an unknown individual, many potential clients will prefer to deal with someone they know and trust, or at least someone known and trusted by someone they know and trust. As a result, many of the best opportunities are never advertised and never show up on Internet job boards.

Thus, it is vital for the independent consultant to build an extensive professional network. This takes considerable time and effort. However, this time and effort is an investment that can pay rich dividends.

At its core, professional networking is simply the process of building and maintaining relationships with other people within one’s field. For the independent consultant, a robust professional network should include a range of people at all levels – peers, influencers, thought leaders, subject matter experts, decision makers, recruiters, and certainly other independent consultants.

To build this network, it is necessary for the independent consultant to be engaged and active in their field. Volunteering with industry conferences and professional associations is a great way to meet people and forge new connections. Staying in touch with former coworkers, former supervisors, and college classmates and professors can add breadth and depth to a network. While this does take time and doesn’t directly generate revenue, one simply never knows how some connection may directly or indirectly lead to a future consulting engagement.

As of 2021, conferences, trade shows, and other business travel remain severely curtailed by the COVID-19 pandemic. Consequently, virtual networking is more important than ever. Social media platforms such as LinkedIn can play an important role in building and maintaining professional relationships when meeting in person isn’t practical. Use these tools regularly to stay current on what your colleagues, clients, and other professionals in your network are doing. Stay engaged with your network by responding to others’ posts with thoughtful questions and encouraging comments. In addition, create your own posts to let others know what’s happening in your professional life.

Of course, there’s no substitute for seeing someone’s face and hearing someone’s voice, even if only via videoconference. Fortunately, the pandemic has resulted in most people becoming much more adept with tools such as Microsoft Teams, Google Meet, WebEx, and Zoom. This technology can be quite advantageous for professional networking, so be sure to use it. A quick 15-minute video conference can be a great way to reconnect with someone in your network, or even to build a new connection.

For a professional network to be effective, relationships must be genuine. Networking isn’t about using people. It should be mutually beneficial. The successful networker doesn’t merely take from their connections, but also provides value in return with no expectation of payback. This value may take the form of sharing information, assisting someone else with a job search, or facilitating an introduction between two people within your network who might benefit from the connection.

Finally, for the independent consultant, networking is an ongoing activity. Ideally, it should begin well before going into business and should continue throughout a career. As the network expands, the independent consultant becomes well-known and gains a reputation as a trusted authority within the field. As this progresses, the independent consultant may find there is no longer any need to seek work because the work seeks out the consultant.

## **SETTING RATES**

Of all the aspects of independent consulting, one of the most daunting might be determining what rate to charge. Of course, everyone would like to receive the highest possible rate. However, setting one’s rate too high can make it difficult to find clients. Thus, it’s important to set a rate which is palatable to both the consultant and the client.

Rates depend on so many factors that it would be impossible to cite a specific figure as the “going rate”. Let’s consider some elements that may influence the rate:

- Type of work – work requiring more specialized or niche skills may justify a higher rate.

- Expertise required – work requiring a certain degree or specific knowledge might pay more.
- Prior experience – consultants having greater experience can command a higher rate.
- Quantity of work – all else being equal, you might ask a higher hourly rate of a client wanting only a small amount of work and give a lower rate to a client that commits to a larger amount.
- Travel expectations – you might expect a higher rate for jobs requiring extensive travel.
- Payment terms – giving your client more time to pay may favor a higher rate.
- “Middle men” – contracts involving an agency, recruiter, or other third-party will generally pay less since the intermediary will receive a cut.
- Competition – the number of other consultants vying for the same work can affect the rate.
- Availability – a client in a pinch may pay more for someone who can do the work immediately.
- Flexibility provided to client – a consultant who can be available on demand to service a client's needs might be able to charge a premium for the convenience and flexibility they add.
- Software licensing – statistical consultants holding their own SAS software licenses can generally impose a higher rate from clients not having their own licenses.

Because so many factors affect the rate, the independent consultant may charge different rates for each client. While the independent consultant may wish to come up with a “standard rate” to quote when an inquiry is received, each potential job should be assessed on its own to determine whether any adjustments to the standard rate (in either direction) are warranted.

## WHAT ABOUT BENEFITS?

Most companies offer their employees a wide range of benefits as part of their total compensation package. Some of the more significant benefits (at least in the U.S.) may include health insurance, a retirement plan, paid time off, and other insurance such as dental, vision, life, and disability.

Aspiring independent consultants can rest assured that it's completely possible for the small business owner to put together a package that achieves a similar lifestyle. In fact, a small business owner has the advantage of being able to purchase only those benefits desired, whereas an employee may find some of their compensation consists of benefits they don't particularly need or want.

Let's take a closer look at some of these benefits.

**Insurance:** It is still possible to purchase an individual health insurance policy in the U.S. They are rather costly, but we will see in a moment that the high cost need not be a barrier. In some situations, depending upon the business structure, the premiums may even be tax deductible. Other types of insurance such as dental, vision, life, and disability are also readily available for individuals from a number of providers.

**Retirement Plan:** Many large brokerages offer an Individual 401(k) (sometimes called a Solo 401(k)) that is available to qualifying self-employed individuals and single-employee businesses. Just like an employee of a large company, the independent consultant can use payroll deduction to contribute money on a pre-tax basis (subject to applicable limits and restrictions). Unlike an employee of a large company, the independent consultant typically has access to a vast array of investments (stocks, bonds, mutual funds, etc.) instead of the limited menu of funds offered by many large 401(k) plans. There are also other options such as the SEP IRA. Consult a financial advisor for help in deciding what type of plan makes most sense for your situation (Retirement Plans for Self-Employed People).

**Paid Time Off:** As mentioned earlier, the independent consultant does not receive paid time off. However, this does not mean he cannot take time off. It simply means that the consultant must earn their desired level of income with enough time leftover to account for any holidays, vacations, and sick leave they may wish to take. For example, suppose an independent

consultant wishes to take 10 holidays, 15 vacation days, and 5 sick days for a total of 6 weeks off. If the consultant manages to earn his desired annual income in the remaining 46 weeks, he can consider the remaining 6 weeks equivalent to “paid time off”.

When considering the cost of benefits, it’s important to understand that an independent consultant can generally expect to earn a higher hourly rate than they would receive as a full-time employee. The true cost to an employer of having an employee is far greater than just the employee’s salary because the employer also must pay for benefits, payroll taxes, and other related overhead. When a client uses an independent consultant instead of hiring an employee, they avoid these employment-related costs. In a robust and efficient marketplace, the value of this savings is reflected in the consulting rate.

To further clarify this concept, we present an example below in which we compare the financial outcomes of two hypothetical individuals: Emily the Employee and Connie the Consultant. Emily receives an annual salary of \$100,000 along with a typical benefits package from her employer. Connie bills \$75 per hour. She only bills 32 hours per week on average because she spends 8 hours developing the business and taking care of administrative tasks. Connie also takes 6 weeks off each year, pays \$450 monthly for an individual health insurance plan, and contributes \$5,000 annually to an individual 401(k) plan. The table below summarizes these details.

	<b>Emily the Employee</b>	<b>Connie the Consultant</b>
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

These numbers are arbitrary and should not be considered representative of anything in particular. Also, this example is grossly simplified and omits many details. Nonetheless, it illustrates how an independent consultant can construct a compensation package like one provided through traditional employment.

## CONCLUSION

Independent consulting can be a very rewarding career choice. It offers almost unmatched flexibility and autonomy, but also comes with its own unique challenges.

Independent consulting is not for everyone. Traditional employment works well for many people. The goal of this paper was to provide a high-level overview of various aspects of independent consulting to help readers decide whether it might be a good fit. Ultimately, only you can decide whether independent consulting is right for you.

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## CONTACT INFORMATION

Your comments and questions are valued and encouraged. Contact the author at:

Joshua M. Horstman  
Nested Loop Consulting  
317-721-1009  
[josh@nestedloopconsulting.com](mailto:josh@nestedloopconsulting.com)

## APPENDIX 1: NEW CONSULTANT CHECKLIST

This checklist contains items a new independent consultant might need to consider when starting out. Some items may not pertain to everyone. This list is not necessarily comprehensive. Needs and requirements may differ greatly depending on the situation. As always, seek professional advice when in doubt.

### Business Startup

- Choose a business name (perform business search to ensure uniqueness, check domain availability)
- Select a legal entity (sole proprietorship, partnership, LLC, C corporation, S corporation, etc.)
- File state-required paperwork to form entity (with Secretary of State or other state office)
- Obtain Employer Identification Number (EIN) from the U.S. IRS (not needed for sole proprietorships)
- Create account on Electronic Federal Tax Payment System (EFTPS)
- Determine state-specific requirements for unemployment taxes (SUTA)

### Protecting the Business

- Evaluate insurance carriers and purchases policies as needed
  - General Business Liability Insurance
  - Professional Liability Insurance (Errors & Omissions)
  - Commercial Auto Insurance (if business owns a vehicle)
  - Worker's Compensation Insurance

### Managing Finances

- Open a business checking account
- Open a business credit card
- Hire payroll service or accountant to issue paychecks, withhold taxes, etc. (if applicable)
- Obtain bookkeeping software or hire an account to manage books

### Look Like a Real Business

- Design a logo, or hire designer to create one
- Register an Internet domain, create a website, and establish email accounts
- Design templates for business letters, invoices, and other written communications
- Order business cards
- Setup a dedicated business phone number (could be a cloud-based service like Google Voice)
- Open a private mail box (not a post office box) with a non-residential street address

### Employee Benefits

- Establish a company retirement plan (Individual 401(k), SEP-IRA, etc.)
- Establish a company health insurance plan, if needed
- Purchase other insurance benefits if desired (dental, vision, disability, life)

### Get to Work

- Purchase computer equipment, software, and other tools needed for work
- Setup an office in your home or elsewhere
- Create polished and robust resume and LinkedIn profile
- Establish rates
- Network to find consulting engagements