



INFORMATION ABOUT BEING AN INDEPENDENT CONTRACTOR

From time to time, we are asked questions about being an Independent Contractor. What are the requirements? Advantages? Disadvantages? It is our goal to help establish PTS contracted therapists as viable business people in their own right. The following information is designed to address some of these questions so that you can make the most of your Independent Contractor Status.

Freedom. As an Independent Contractor, you are your own boss. You are free to accept or decline work opportunities. You determine when you work, how many hours, and how you do your work (as long as it is within the professional standards of your discipline.) As a company, we do provide programming supports to our clients, to which you may avail yourself.

Business Ownership. As an Independent Contractor, you essentially own a sole proprietorship. You will have income which will be generated via billed service hours and you will have expenses. A distinct advantage here is your ability to control expenses and establish generous retirement plans. Independent Contractors enjoy far more freedom and flexibility in this regard than do employees.

Expenses. Employee's are reimbursed for their business expenses by the company for which they work- Independent Contractors are not. This means that when tax time comes, you will be able to make dollar for dollar deductions against your Independent Contractor income for all of your legitimate expenses. The following are the types of expenses you may deduct.

Automobile Expenses
Computer Hardware & Supplies
Dues and Subscriptions
Health Insurance Expenses 100% Tax Deductible
Licenses
Office Supplies & Equipment
Postage
Professional Services (legal, accounting, etc.)
Seminars/Continuing Educ.
Telephone
Treatment Supplies

Bank Service Charges
Equipment Leasing
Interest Expenses
Marketing & Promotion
Parking and Tolls
Printing and Copying
Rent (business use)
Taxes
Travel & Entertainment
Utilities
Uniforms/Dry Cleaning

This material may be used as a referral source, however, you may want to consult a tax advisor to determine how it relates to your financial situation.



All your income and expenses are reported on Federal Form Schedule C. It is wise to consult a professional tax accountant regarding your taxes. Their fee is deductible.

Retirement Plans. You are able to establish a self-employment retirement account which would allow you to direct how much you save and where it is invested. A SIMPLE Plan would allow you to save into a tax deferred account 100% of your Schedule C profit up to \$10,000 per year. If you earn enough money and want to save more, a SEP-IRA will allow you to save 13% of your Schedule C profit up to a maximum contribution of \$42,000.

Estimated Taxes and Self-Employment Taxes. When you are invoicing your client, you will receive payment for your services with no tax withholding. This does not mean you are not responsible for paying taxes- it means that you must send them in yourself. On a quarterly basis, this means that you will have to pay estimated quarterly taxes. The IRS will send you a Schedule SE for helping you calculate your taxes.

Whereas an employer would normally pay their half of the Social Security (6.20%) and Medicare (1.45%) taxes, the Independent Contractor must pay the portion which would normally be due from them (7.65%) and the portion that would have been paid by the company (7.65%). These taxes are calculated against the Profit of your Schedule C, not your total business revenue. While it is a disadvantage to have to pay this 7.65%, you should know:

- Contract rates are generally at a premium, compared to employee
- This portion of taxes is deductible from your reportable income
- Both portions of the Social Security Tax (6.20% x 2) is discontinued after \$94,200 in total W-2/ Schedule C profits.

Suggestions:

1. **Apply for an Employer Identification Number to legitimize your business.**
2. **Consider developing computer generated letterhead and business cards. A separate checking account is also advisable.**
3. **Use software such as Quicken to track your business checking account and business expenses.**
4. **Seek professional advice from an accountant for determining which expenses are deductible for you.**