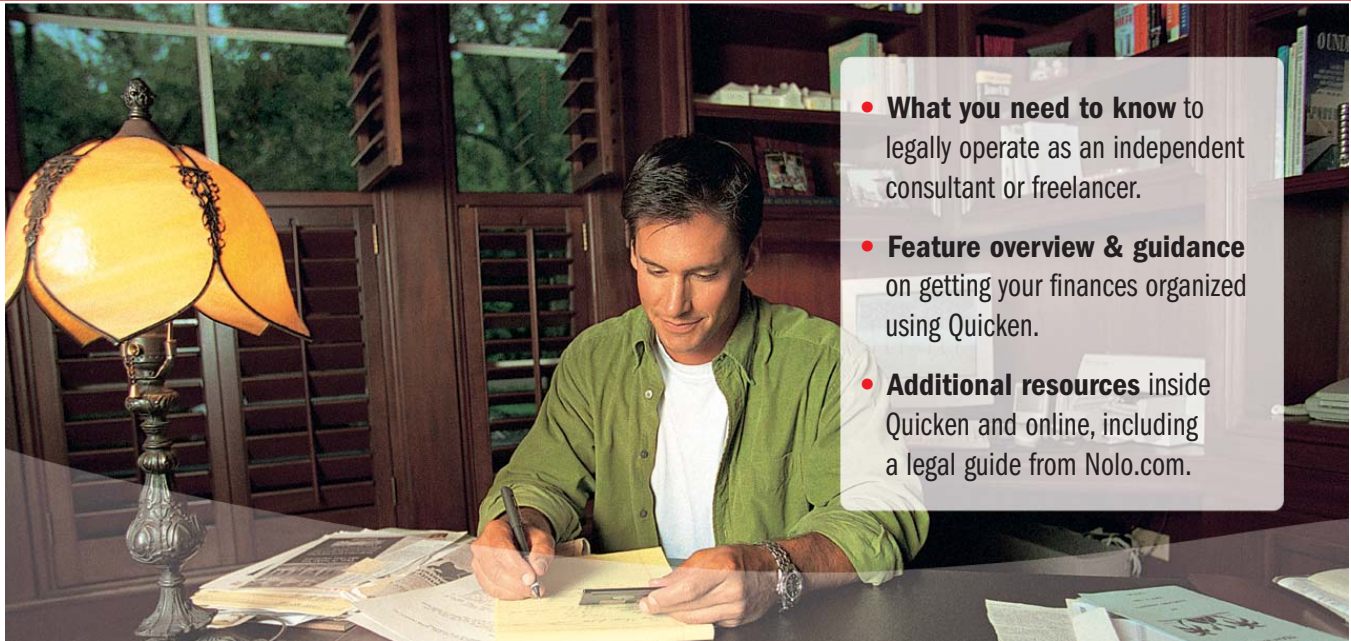


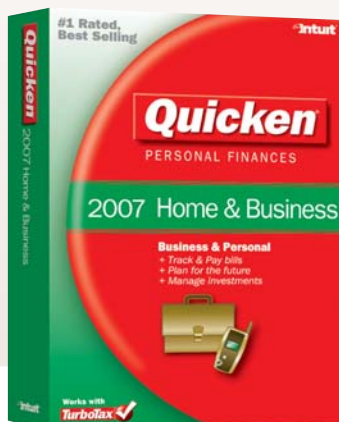
# Quicken



- **What you need to know** to legally operate as an independent consultant or freelancer.
- **Feature overview & guidance** on getting your finances organized using Quicken.
- **Additional resources** inside Quicken and online, including a legal guide from Nolo.com.

## Running a Business of One

A guide for independent consultants, freelancers and contract workers



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Becoming self employed essentially makes you a small business of one. You may take business tax deductions, must pay quarterly estimated taxes, and at the end of the year you file the same tax returns a small business would submit to the IRS.

## Chapter 1. Managing Your Finances With Quicken

### INTRODUCTION

**Quicken® Home and Business software** is designed to help you perform all the important tasks of running your independent consulting or freelancing practice and save you time.

This guide is intended to give you a quick overview of the basics you'll need to know to operate as an independent consultant or freelancer. We'll also highlight the features you'll use in Quicken and give you some guidance on getting started tracking your finances.

Those who are either new to contract work or new to Quicken will benefit the most from this short guide, however even seasoned consultants and Quicken users may find a review helpful.

### FOR MORE INFORMATION

**Quicken User Manual:** Click on the Help menu within Quicken and selecting "User Manuals".

**Legal guide from Nolo.com\*:** Found under the Business Menu as "Small Business Guidance."

\* Keep in mind that generic information has its limitations. Quicken recommends you ask the advice of a lawyer or certified accountant when you have doubts about how the law applies to you and the way you manage your finances.

We'll begin with Quicken essentials, then move into other relevant topics such as whether or not to incorporate, covering your bases in case of an audit and paying taxes as a business.

We'll also cover topics important to your business outside of Quicken—such as setting rates, finding your next contract and finding online resources of interest. Since we'll cover only the most important topics in this volume, we also invite you to look at the resources list in the last chapter and do some research on topics of interest to you.

### CHOOSING A BOOKKEEPING METHOD

The first thing you will want to do to start using Quicken to track your finances is to choose a bookkeeping method. You can choose between **cash-basis accounting** and **accrual-basis accounting**. This will not affect the way you use Quicken to keep financial records, only the way that Quicken calculates profits and losses.

You must indicate your choice of bookkeeping method when you file the first tax return for your business. After that, if you want to change your bookkeeping method, you need permission from

Category	Hide	Description	Tax	Tax Line Item
<b>Income</b>				
Bonus	<input type="checkbox"/>	Bonus Income	<input checked="" type="checkbox"/>	W-2:Salary or wages, self
Consulting	<input type="checkbox"/>	Consulting Income	<input checked="" type="checkbox"/>	Schedule C:Gross receipts o...
Div Income	<input type="checkbox"/>	Dividend Income	<input checked="" type="checkbox"/>	Schedule B:Dividend income
<b>Expense</b>				
Ads	<input type="checkbox"/>	Advertising	<input checked="" type="checkbox"/>	Schedule C:Advertising
Auto	<input type="checkbox"/>	Automobile Expenses	<input type="checkbox"/>	

#### Schedule C Reports

the IRS. If yours is a service-based business (consultant, lawyer, or electrician), the cash-basis method is usually easier.

**Cash-basis bookkeeping** means you record income when you receive an actual payment and record expenses when you pay bills. If you record customers' payments but do not count the money they still owe, then you're using cash-basis bookkeeping. Likewise, you record an expense when you pay it, rather than when you receive the bill.

For **accrual-basis bookkeeping**, you record income at the time of the sale, not when you receive the actual payment. Likewise, you record an expense when you receive the bill, not when you pay it. If all or part of your income depends on maintaining an inventory—for example, if you manufacture products or buy products for resale—the IRS generally requires you to use the accrual method. For most other businesses, the IRS doesn't require a specific method.

#### FOR MORE INFORMATION

Refer to the **small business and self-employment pages of the IRS Web site**. (Choose Business menu > Go to Business Center, and click the Analysis & Reports tab. In Internet Resources, click IRS Small Business Center.)

**Talk to your accountant.**

#### Modify your settings

Quicken uses cash-basis reporting by default, but supports either method. To check your settings,

choose Edit menu > Preferences > Quicken Program. In the Quicken Preferences dialog, click Reports and Graphs. To run cash-basis reports, make sure there is a check mark next to the cash-basis reporting. If applicable, check the box. To run accrual-basis reports, click to clear the check box.

#### SETUP OVERVIEW

The most common task you will do in Quicken is to track your expenses. At the end of the year, you may deduct your business expenses from your income on your tax return. Tracking expenses is relatively straightforward when you use Quicken. You may either download your transactions from your financial institution<sup>1</sup> or manually enter each expense you incur, and then you classify each type of expense by selecting a category from the Quicken Categories list.

Certain categories are associated with tax line items, which makes paying taxes at the end of the year much easier. This association is what helps to **generate accurate schedule C reports** at the end of the year and helps import your data correctly to your tax software.

#### Accounts in Quicken

You will need to set up an account in Quicken for each real-life account you hold at a financial institution in order to keep track of activity within and between each account. You may either enter transactions manually or by downloading transactions if your financial institution allows you to log into your account online.

The real power of Quicken lies in the ability to organize your data by account and then aggregate

1. Online features require Internet access and are subject to change. Services vary among participating financial institutions or other parties and may be subject to application approval, additional terms, conditions and fees. More than 4,000 participating financial institutions as of 8/1/06.

and classify your expenditures across financial institutions so that you can see all your information in one place.

**Accounts: Manual Method:**

An account in Quicken works very similarly to a checkbook register. If you choose to enter your transactions manually, you simply type the name of place you spent money, the amount and choose a category that describes the type of expense or income.

For example, to record a purchase of office supplies for my business, enter “Office Max” as the payee, the cost in the payment field, and then select the appropriate category. If you would like further guidance on how to manually enter transactions, please see Chapter 2 of “Getting Started with Quicken” for guidelines under Help > User Manuals.

**Accounts: Download method**

Downloading is the preferred method of entering transactions into Quicken, since it’s faster and less error-prone.

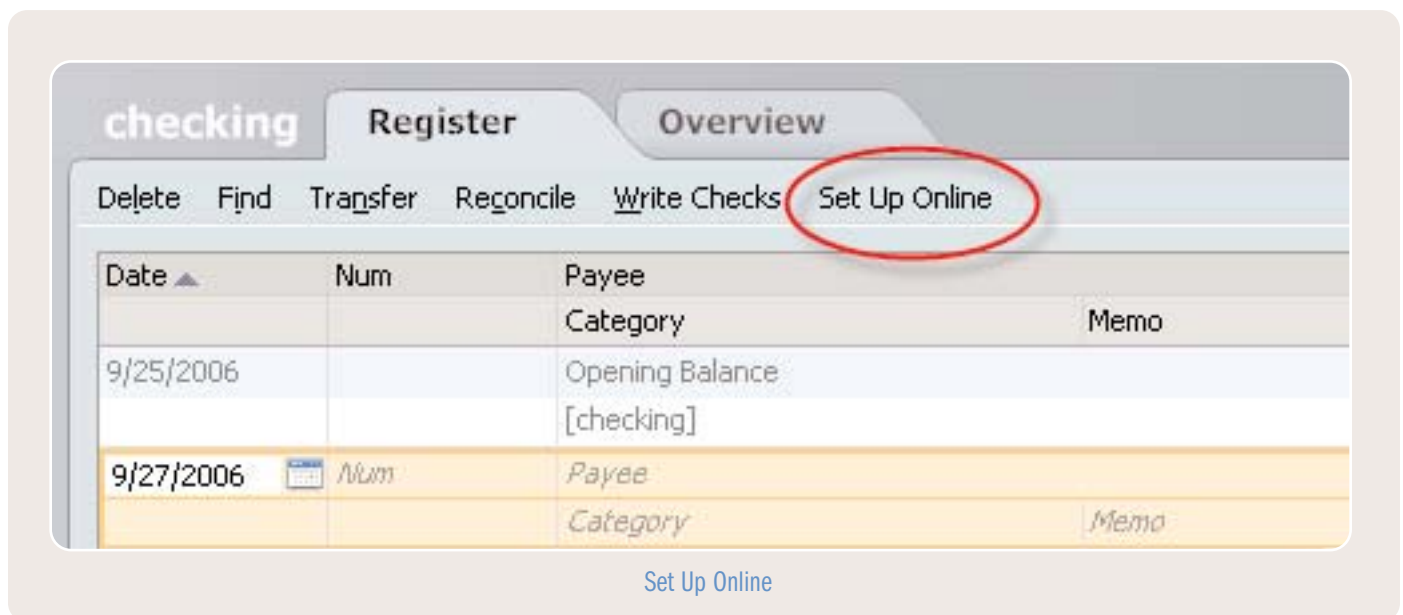
You will still review each transaction for accuracy. In general, you will only need your online banking login information to set up the account, though certain institutions may require additional setup<sup>1</sup>.

To set up an account for download capabilities, click the **“Set up online” button** at the top of the account register and follow the on-screen instructions. For more guidance on how to download your transactions directly through your financial institution, please see Chapter 2 of “Getting Started with Quicken” for guidelines under Help > User Manuals.

Once you have downloaded transactions, you must review them to make sure they have been properly recorded into Quicken. Quicken will automatically recognize transactions that were entered manually and match them to those downloaded from your financial institution. Quicken will also remember categories generally associated with each vendor, so the process of reviewing downloaded transactions will be relatively quick.

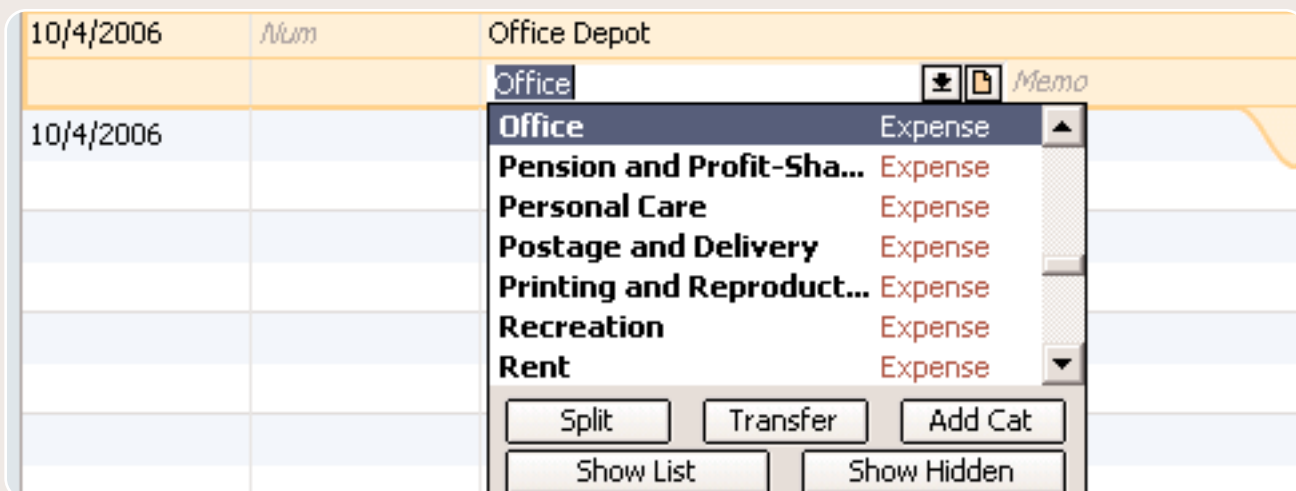
**Using categories in Quicken:**

Categories are the function by which you track where your money goes and will also allow you to generate reports for tax and business deduction purposes. While you spend money in separate accounts, categories span all of your cash, credit card or checking accounts. You can quickly and simply view reports on how you spend your money regardless of how you paid for the expense. You may add your own categories to Quicken and track your expenses just the way you like to see them.



1. Online features require Internet access and are subject to change. Services vary among participating financial institutions or other parties and may be subject to application approval, additional terms, conditions and fees. More than 4,000 participating financial institutions as of 8/1/06.





Using Categories in Quicken

### TIP: TAX CATEGORIES

In general all the income and expense transactions for your small business are tax-related. Quicken can track the tax-related transactions and assign the tax form line item for you, which vastly simplifies your tax planning and reporting. If you choose to use TurboTax or TurboTax Home and Business to file your tax return, you can import these transactions and save time preparing your forms.

In order to see which categories are associated with tax line items and to assign tax line items to new categories, choose the Tools menu > Category List. Make sure the “Display tax information” box is checked, and you can review each category and the tax line item associated with it. If you’d like to modify the category or the tax line item association, right click on the item and select edit.

For more information, see chapter 2 of “Getting started with Quicken Home and Business” in Help > User Manuals.

### TAXES

For tax purposes, it is imperative to keep your business expenses and personal expenses completely separate. The IRS recommends holding separate business and personal checking accounts and credit cards, so that you pay for each type of expense from a completely different

account. In addition, you should deposit your business income into your business checking account. To pay yourself, you should make periodic transfers from your business to your personal checking accounts.

Many independent consultants, contract workers and freelancers prefer to think of their finances as one whole, even though the IRS requires you to separate them. With Quicken there are several options to help you achieve that separation and still see your complete financial picture:

- The first and safest in case of audit is to have separate business and personal bank accounts and credit cards. That way, personal expenses are entirely separated from business expenses but they can still be stored in the same data file within Quicken to give you a complete picture of your finances.
- A second method is to use separate Data files for your personal and consulting-related expenses. To do this, open Quicken, click on File->New and choose New Quicken File then click OK. You’ll be asked to save the new file—be sure to remember where on your hard drive each file exists so that you can continue working with them. The drawback is that you won’t be able to see your entire financial picture.

- The final method, which is not recommended due to IRS regulations, is to use classes and categories to separate out expenses in the same checking account. (Pull section from how-to on setting up categories and classes)

### **TIP: HELPING TO AVOID AN IRS AUDIT**

Here are a few common errors you'll want to avoid if you're looking to comply fully with bookkeeping best practices and help avoid an audit:

- Writing checks from a personal checking account that are later claimed as a business expense. If questions ever arise, it's best to keep your expenses separate from the beginning
- Making business-related credit card purchases on a personal credit card
- Writing business checks payable to cash
- Depositing business receipts directly into a personal checking account

If the IRS ever needs to see your records, you must be able to document all your income sources and deductions. When you deposit all business income in a separate bank account and make payments by check, you can use your bank statement and canceled checks to back up your records.

## **PAYING TAXES**

Most independent consultants are self-employed as sole-proprietors or single-member LLCs who do not choose to be taxed as a corporation.

Businesses with these legal structures must file the following forms: you report your net profit or loss from your consulting operations on Schedule C and file that with your Form 1040. You calculate your self-employment tax on Schedule SE and report the total tax calculated on Schedule SE in the "Other Taxes" section of Form 1040.

For federal taxes, you will also need to file **Estimated Taxes** on Form 1040-ES on a quarterly basis if you expect to owe more than \$1000 in

income taxes for the year. Different states have different regulations for estimated tax payments, so be sure to check with your state tax board for the requirements and forms. Estimated taxes can be thought of as federal and state income tax withholdings throughout the year, similar to taxes that employers withhold for their employees from their paychecks.

**The self-employment tax** is based solely on the business income that you report on Schedule C. It is 15.3 percent of your net earnings from self-employment as reported on Schedule SE, and is equivalent to both the employer and employee portions of Social Security and Medicare taxes.

The self-employment tax consists of two portions:

- **12.4 percent for Social Security.** The social security portion of the self-employment tax applies only to your income up to \$94,200. Any income you earn above \$94,200 is not taxed by Social Security.
- **2.9 percent for Medicare.** The Medicare portion of the self-employment tax is unlimited. No matter how much or how little you earn, you will be paying for Medicare.

You can take one half of your self-employment tax amount as a deduction against total income on your Form 1040.

### **FOR MORE INFORMATION**

For more information on this tax, see IRS Tax Topic 554: The Self-Employment Tax.

While you can sometimes reduce or eliminate your regular income tax liability, if a Schedule C shows income (after expenses) of more than \$400, you will pay the SE tax.

### **Using Quicken to help Prepare Taxes**

Quicken can automate many of your tax preparation chores and help you gather data for IRS forms and schedules, whether you fill them out yourself,

use TurboTax, or hand everything over to a tax professional.

The more carefully you set up your Quicken data, the more Quicken can help.

Make sure you assign the appropriate categories to all your tax-related transactions. Most of the standard categories already have the correct tax form line item assigned to them. For example, the Consulting category is assigned to the Gross Receipts line item on Schedule C (Profit or Loss from a Business).

### FOR MORE INFORMATION

See “Set up business categories” in Chapter 2 of “Getting Started with Quicken Home and Business” under Help > User Manuals.

To add in standard business categories, go to the Tools menu > Category List and click on “Add from List” at the bottom of the screen. You may put a check mark next to each category you want Quicken to set up for you.

If you assign the appropriate categories and tax line items to all your tax-related transactions, you can import your Quicken data directly into

TurboTax. (Consider purchasing TurboTax even if you continue to use a professional tax preparer—it can give you information about tax-related transactions you might have overlooked.)

The tax reports in Quicken can help you plan ahead by summarizing your tax-related income and expenses, listing your tax-deductible transactions, and giving you an estimate of your tax liability. The Tax Planner can help you prepare for the inevitable by giving you a clear picture of your current tax situation throughout the year. When you’re ready to gather your information at tax time, just create these reports in Quicken:

- A **Schedule C** report lists transactions for Schedule C subtotaled by tax line item. (Choose Reports menu > Business > Schedule C.)
- A **Tax Summary** report lists all your tax-related transactions, grouped and subtotaled by category. (Choose Reports menu > Tax > Tax Summary.)
- A **Tax Schedule** report lists all your tax-related transactions, grouped and subtotaled by tax form name and line item. You may need to assign line items from tax forms and schedules to some of your Quicken categories, though most are standard. (Choose Reports menu > Tax > Tax Schedule.)

Go to Recategorize

Show:   Display tax information

Category	Hide	Description	Tax	Tax Line Item
<input type="checkbox"/> <b>Income</b>				
Bonus	<input type="checkbox"/>	Bonus Income	<input checked="" type="checkbox"/>	W-2:Salary or wages, self
Consulting	<input type="checkbox"/>	Consulting Income	<input checked="" type="checkbox"/>	Schedule C:Gross receipts o..
Div Income	<input type="checkbox"/>	Dividend Income	<input checked="" type="checkbox"/>	Schedule B:Dividend income
Finance Charge	<input type="checkbox"/>	Finance Charge Income	<input checked="" type="checkbox"/>	Schedule C:Other business i..
<input type="checkbox"/> <b>Expense</b>				
Ads	<input type="checkbox"/>	Advertising	<input checked="" type="checkbox"/>	Schedule C:Advertising
Auto	<input type="checkbox"/>	Automobile Expenses	<input type="checkbox"/>	

[Add Business Categories](#)

- A **Capital Gains** report (for reporting on Schedule D) shows short-term, long-term, and super-long-term capital gains for securities sold during a specified period. (Choose Reports menu > Tax > Capital Gains.)
- An **Investment Income** report (for reporting on Schedule B) shows dividend income (taxable and tax exempt), interest income (taxable and tax exempt), capital gains distributions, realized gain or loss, unrealized gain or loss (as an option), and margin interest and other investment expenses during a specified time period. (Choose Reports menu > Investing > Investment Income.)

For more details about using Quicken for taxes, choose Help menu > Quicken Help, click the Index tab, enter taxes, and select overview of.

### **Track mileage**

The Vehicle Mileage Tracker helps you track tax-deductible mileage, such as the distances you travel to charitable, medical, or business-related activities. Quicken helps you track tax-deductible mileage for multiple vehicles, as well as tax-deductible parking and tolls. Then, when it's time to prepare your taxes, you will have your mileage records ready for use with TurboTax. Be sure to read the section covering tax deductions for more information.

### **Estimated Taxes**

The IRS requires you to pay Estimated Taxes on a quarterly basis. This tax includes social security, Medicare taxes, and income taxes every quarter. You should be aware that there are penalties for underpayment.

### **Calculating Estimated Taxes**

General Rule: You must pay estimated tax for 2006 if both of the following apply.

1. You expect to owe at least \$1000 in tax for 2006 after subtracting your withholding and credits.
2. You expect your withholding and credits to be less than the smaller of:
  - 90% of the tax to be shown on your 2006 tax return, or
  - 100% of the tax shown on your 2005 tax return. Your 2005 tax return must cover all 12 months.

If your prior year's adjusted gross income was less than \$150,000, then you can pay either 90 percent of this year's income tax liability or 100 percent of your income tax liability from last year (dividing what you paid last year into four quarterly payments).

**Enter Trip**

Trip <u>d</u> ates:	<input type="text" value="10/4/2006"/>	to:	<input type="text" value="10/4/2006"/>	Parking & Toll:	<input type="text"/>
Trip <u>T</u> ype:	<input type="text" value="Business"/>	Rate:	0.445	Odometer at <u>S</u> tart:	<input type="text" value="45,773.0"/>
<small>Tracks Business miles for Schedule C</small>				Odometer at <u>E</u> nd:	<input type="text" value="45,881.0"/>
Purpose:	<input type="text" value="Client Visit"/>			Miles traveled:	<input type="text" value="108.0"/>
Destin <u>a</u> tion:	<input type="text" value="2525 Garcia Ave, Mountain View"/>			<a href="#">Not sure how far it was? Map it.</a>	
Ve <u>h</u> icle used:	<input type="text" value="Black Toyota"/>			<input type="button" value="Record Trip"/>	

[Track Mileage](#)



If your prior year adjusted gross income was greater than \$150,000, then you must pay either 90 percent of this year's income tax liability or 110 percent of last year's income tax liability.

To figure your estimated tax, you must figure your expected adjusted gross income, taxable income, taxes, deductions, and credits for the year.

When figuring your 2006 estimated tax, it may be helpful to use your income, deductions, and credits for 2005 as a starting point. Use your 2005 federal tax return as a guide. You can use Form 1040-ES to figure your estimated tax.

You must make adjustments both for changes in your own situation and for recent changes in the tax law.

**An important note:** After you start paying estimated taxes, be sure to keep a separate record of the dates you paid them and how much you paid for each period. This is where many people don't keep accurate records, and as a result you may have to spend more time preparing your taxes and have difficulty getting credit for estimated taxes you already paid.

#### **Due dates for Estimated Taxes**

The periods and due dates for 2006 are as follows:

<b>For the period</b>	<b>The due date is</b>
1/1 through 3/31	4/17
4/1 through 5/31	6/15
6/1 through 8/31	9/15
9/1 through 12/31	1/16 of the next year

**Note:** If a tax payment due date falls on a weekend or holiday, then it is due on the next business day.

If you start a side business (and you report your income from that business on Schedule C) while continuing to work for an employer who withholds from your paycheck, you may be able to adjust your withholding so that it equals your tax liability for the entire year. In that case, you will not need to pay estimated taxes on your side business.

#### **TIP: APPLY 2005'S REFUND TO 2006**

One way to get a jump on paying your 2006 taxes is to apply your 2005 tax refund to your 2005 taxes instead of getting a refund.

If you won't have federal income tax withheld from wages or if you have other income and your withholding will not be enough to cover your tax bill, you probably need to make quarterly estimated tax payments. Having all or part of your overpayment applied to your estimated taxes is a relatively painless way to take care of some of what you owe for 2006.

TurboTax Estimated Taxes helps prevent tax-time surprises such as fines and penalties by minimizing under and overpayments and by sending you deadline reminders. It also allows you to e-file or print your completed payment vouchers.

#### **INVOICING AND TRACKING INCOME WITH ACCOUNTS RECEIVABLE**

Quicken allows you to prepare invoices which track directly to your business Accounts Receivable (A/R) account in the business center. The A/R account works slightly differently than normal cash flow accounts within Quicken. While normally you can type a transaction directly into the register for a cash flow account, in A/R you will create invoices to record money that is owed to you, and create payments to record money you received.

#### **Creating invoices**

In the Business Center icon on the left side of the Quicken home page, click the customer invoices accounts. In the Create New menu, choose Invoice. From here, you will enter in your customer information, the items you are invoicing, and the prices. Quicken will help to total up the charges. Once you have completed the invoice you can save the invoice, print it, e-mail it, or record a payment you received. Keeping detailed invoices for your records in Quicken is generally a good idea, however you may still enter just the client name, total charges and a category to track your income owed.

## Receiving Payments

In the A/R account, click Create New > Customer Payment. When you select the customer's name and hit tab, you'll see a list of open invoices associated with the customer. Enter the amount you received and put a check mark next to the invoice to which you'd like to apply the payment. Be sure to select the proper account to which you will deposit the payment, then save the transaction. You'll see another line entered in the register recording the payment.

### FOR MORE INFORMATION

For more detail on Accounts Receivable, customizing invoices and tracking payments, please see Chapter 3 in "Getting started with Quicken Home and Business" under Help > User Manuals.

## Customer Payment

DATE	BALANCE
10/4/2006	750.00

Customer: John Smith

Amount: 750.00

Deposit To: checking

Check Number:

Memo:

Existing Credits: 0.00

Total to Apply: 750.00

Apply Existing Credits

Unapplied Amount: 0.00

### Outstanding Invoices

Pay	Date	Project/Job	Type	Number	Orig Amt	Due Date	Amt Due	Payment
✓	10/4/2006		Invoice	101	750.00	11/3/2006	750.00	750.00

Totals: 750.00 750.00

Receiving Payments in Quicken



While it's important to understand the different legal structures of a business before committing to one, don't forget that you can always change it later! Rather than spend your valuable time analyzing different business structures, it is usually best to choose the simplest form for your business and then get down to work. Over time your needs may change, and your business structure can change with them.

## Chapter 2. Independent Consulting Beyond Quicken

### **STRUCTURING YOUR BUSINESS**

There are two common structures most consulting or freelancing practices take: a Sole Proprietorship and a single-member LLC. The most appropriate structure depends on your risk of personal liability for business debt and judgments against your business.

#### **FOR MORE INFORMATION**

For more information on these and other business structures, please see the **Small Business Guidance packet** within Quicken Home and Business by clicking on the Business menu then selecting Small Business Guidance.

### **SOLE PROPRIETORSHIP**

Becoming a sole proprietor is the simplest form of a business and does not require you to file

articles of incorporation. This is the most common structure for independent consultants, freelancers and contract workers.

#### **Paperwork**

Your state may require you to have a business license. If you want to operate under a name other than your own (for example, Design Consulting of San Francisco rather than Jane Doe) you'll need to register a fictitious business name at a local or state public office.

#### **Liability**

As a sole proprietor, you and your business are considered one entity under the law. You will want to evaluate how much risk your business poses to you and your personal assets. In general, independent professional service consultants are in a low-risk category, as they generally do not have employees and their business debts are likely to be small.

## **Income Taxes**

As a sole proprietor, your profits are considered your income and are taxed the same year they are earned. You do not have the ability to keep “retained earnings”—profit saved for later business use. Throughout the year you must file quarterly estimated taxes, and at the end of the year you will file your tax return on Schedule C of form 1040. You are also entitled to take business deductions of costs incurred by operating your business.

## **LIMITED LIABILITY CORPORATIONS**

Corporations have an advantage over sole proprietorships in relation to personal liability, however they may not offer as much protection as one might think.

LLCs are a very popular form of incorporation, and for the purposes of this document we will assume the LLC is incorporated by one independent consultant. Essentially, incorporation establishes the business as a separate entity, providing a liability and tax barrier between the corporation and the owner of the business.

## **Liability**

Any judgments of liability against the corporation can only access corporate assets, since corporations are designed to protect the personal assets of the business owner. Corporations may not offer as much protection to a sole owner as you might think, however, because you will still be personally liable for your actions.

For example, if you are driving for a business-related task and accidentally injure a pedestrian, you can still be personally named in a law suit. You will also be liable for any business debt taken out by the corporation that you personally

guarantee, so as an independent contractor, especially as a professional service provider or consultant, you may not benefit as much from the protections of a corporation.

## **FOR MORE INFORMATION**

To learn more about LLCs, please see the Small Business Guidance resource within Quicken Home and Business by clicking on the Business menu then selecting Small Business Guidance.

## **Income Taxes**

LLCs offer nice flexibility in terms of tax preparation. By default, a single-person LLC is taxed as a sole proprietorship as covered above rather than a corporation, though you can request corporate-style taxation.

## **Summary**

Ultimately, for most consultants, contract workers and freelancers, the best structure is the sole proprietorship because of its simplicity.

LLCs require registration with your state’s agency, have fees associated, and frequently require the services of a lawyer, and you will still be held liable for your actions and business debts that you personally guarantee. Liability insurance will probably mitigate the risk of doing business as a sole proprietor, but if you feel you have an unusual situation, you should consult with a lawyer for personalized advice.

To learn more about liability insurance and other insurance you might need, please reference Small Business Guidance in the Business menu of Quicken Home and Business.

## **TIP: CONTRACTING TO FREELANCERS**

As an independent consultant or freelancer, you can still contract work to other freelancers, which will prevent the liability incurred by hiring employees. Be aware of the federal definition of an employee and make sure to properly classify anyone working for you.

## **LICENSES AND RED TAPE**

### **Licenses and Permits**

Licenses and permits are hard to discover but are important to any business. Because rules vary widely and are frequently determined at the city and county level, therefore this guide book



will not cover specific requirements. It's important that you thoroughly research your city, county, and state laws to find out which licenses or permits you will need to operate your business.

Typically independent contractors, consultants and freelancers will need a business license from their state or local government.

### **FOR MORE INFORMATION**

To learn more about licenses and permits, please refer to the Small Business Guidance document found in Quicken Home and Business in the Business menu under Small Business Guidance.

Other licenses to be aware of involve property and sales tax, though service professionals are generally exempt from these requirements. Be sure to thoroughly research licensing requirements for your chosen field and at all levels of government—city, county, state, and federal.

### **Home-Based Business: Zoning Laws**

For many independent consultants, contract workers, and freelancers, working from a home-office is an attractive option. In most cases, this type of work does not violate zoning laws because it attracts little attention, however, be wary of outdoor modifications such as signs.

If you live in a planned community or apartment complex, you will need to abide by the rules set out by the community organization. In general, be a good neighbor and you will not have a problem with zoning.

Let your neighbors know if there is an aspect of your work which might affect them, such as noise, frequent visitors or deliveries, etc. If you are likely to hold meetings with clients in your home, be considerate of parking.

Consider renting a PO box or finding an alternative delivery address if you receive daily shipments from FedEx, UPS, or other shipping companies.

### **Maintaining Your Independent Classification**

Independent contractors should be mindful that they structure their work in a way that maintains their status as independent contractors rather than employees. It is possible for the IRS to re-classify you as an employee rather than an independent consultant, which results in fines and back payment of payroll taxes. There are several ways to minimize the chances of this happening.

#### **1. Demonstrate that you are independent and in control of your own work schedule**

Avoid implying an employer-employee relationship. Your clients should not give you training or determine your working hours, though setting deadlines is appropriate. You should not accept side benefits such as health insurance, paid vacation, or pension plans, as these imply employee status. When possible, working off-site also demonstrates your independent status.

The written work contracts and agreements also emphasize your status as an independent consultant. Similarly, project-based fee schedules place higher risk on you and reduce the appearance of an employer-employee relationship.

#### **2. When possible, work for multiple clients at a time or in one year.**

#### **3. Structure your operations and your finances like a business.**

Maintain separate business and personal checking accounts, register a fictitious business name and make sure you are properly licensed. Things like business liability insurance also indicate an independent status.

### **FOR MORE INFORMATION**

This section summarizes information applying to independent consultants and contractors and relies on the “Legal Guide for Starting and Running a Small Business” by Fred S. Steingold. You can find more detail at [Nolo.com](http://Nolo.com) or within Quicken Home and Business under Business > Small Business Guidance.



As an independent consultant, you will set your own rates. The best way to figure out how much to charge is to ask colleagues in similar roles with similar experiences how much they think you should charge.

## Chapter 3. Setting Rates and Getting Paid

Keep in mind the extra taxes you will be responsible for paying, namely the self-employment tax. You may also need to provide your own health insurance and other benefits you may have previously received from an employer.

### **Fee structure**

First, you'll want to decide on your fee structure. Many independent consultants and freelancers simply charge an hourly rate, while others prefer to charge on a per-project basis. Ultimately, you will want to make sure you are getting a good return on the amount of time you spend on a project, so be wary of scope-creep if you choose to charge by project.

No matter what your fee structure, make sure you're confident you understand exactly the work you've agreed to complete—put it in writing, and draw up new agreements for additional work your client proposes.

One simple way to calculate an hourly rate is to add back in the cost of benefits that you must

now provide to yourself such as health care, and to account for taxes.

You can search the internet for “paycheck calculator” and “gross-up paycheck calculator” to find out what hourly rate will result in a particular net income based on your state and tax withholdings. These will also be helpful if you hold a W-2 position with an employer and contract on the side.

### **Protecting yourself from non-payment**

Keep in mind that there is a risk clients will refuse to pay you for your services.

The best way to protect yourself from non-payment is to submit clear written guidelines for your payment schedule to your client and have them sign an agreement to adhere to the schedule.

You may then either remind your client of the agreement or request payment based on the agreement, and you will be providing yourself with some legal protections if collection becomes an issue.



## **IMPORTANT NOTE**

At the time of publication, the IRS had not yet updated its publications regarding tax deductions for 2006. Be sure to thoroughly research rules regarding tax deductions for your business for 2006 before filing your tax returns.

## **Chapter 4. Taxes and Deductions**

### **TAKING BUSINESS DEDUCTIONS**

One of the great advantages of being an independent consultant, contract worker, or freelancer is that you are considered to be a small business by the IRS, and as such, you're entitled to many more deductions for the cost of doing business than a regular W-2 receiving employee can take.

This is because you are taxed on profits and not gross income. The tricky part for many independent consultant is that the line between business and personal is not always clearly defined.

For example, a retail store owner can classify electricity bills for her store as a business deduction. A web design consultant who works from home, however, uses her home for both business and personal purposes and claiming the entire bill as a business deduction would raise legal concerns.

One best practice for calculating what percent of shared personal and business expenses is deductible is to estimate the amount of time spent on business vs. personal use.

For example, if a freelance editor uses his cell phone for phone meetings with clients, he could

calculate what percent of charges were due to business reasons and deduct that percent of the bill. Similarly, you should take a home office deduction from your rent or mortgage by calculating what percent of your square-footage is used for business activities. Divide your business square-footage by your home's total square footage—multiply your rent or mortgage by the resulting percentage, which will tell you the amount you are allowed to deduct for your home office.

### **FOR MORE INFORMATION**

More information about business deductions can be found at TurboTax.com under Tax Tips; you should also visit the IRS small business website at: <http://www.irs.gov/businesses/small/index.html>

Certain business deductions can be an audit flag, so it's best to keep accurate records.

Quicken allows you to scan receipts and store them with the corresponding entry in the register. You may also choose to keep paper receipts substantiating each deductible expense. Because there are many deductions that may apply to you, we'll only go over the most common deductions

related to a home-based, service business. Be sure to read additional materials to fully understand what you're entitled to take.

IRS publication 535 is a more comprehensive list of the rules for business deductions and can be found at: <http://www.irs.gov/publications/p535/index.html>

### **WHAT EXPENSES ARE DEDUCTIBLE?**

To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary.

It is important to separate business expenses from the following expenses:

- The expenses used to figure the cost of goods sold
- Capital Expenses
- Personal Expenses

### **Automobile Expenses**

You can deduct automobile expenses for visits to clients, customers, or a business meeting away from your regular workplace.

If you have a home office, a drive from your home to a supplier and back home again is a 100 percent deductible business expense tax.

To take this deduction, you must keep a log of your trips, noting the date, miles driven and purpose of the trip. Quicken Home and Business includes a mileage tracking feature, found in the Business menu > Mileage tracker. If the IRS ever audits you, they will require written documentation to substantiate your deduction.

When figuring expenses, you may choose between the standard mileage rate (44.5 cents per mile for 2006), or your actual expenses, which includes items such as gas, oil changes, tires, repairs, preventative maintenance, insurance,

### **FOR MORE INFORMATION**

For more on mileage, see IRS publication 463 at: <http://www.irs.gov/publications/p463/index.html>

and registration. If you choose to deduct your actual expenses in the year you start using your car for business, you are making an irrevocable election, which means that you can't switch to the standard mileage rate later. If you choose the standard mileage method first, you can switch to actual expenses in a later year.

### **Home Office Expenses**

To take the home office deduction, you must use your home office regularly and exclusively for your business, and your home office must be your principal place of business.

To meet the regular and exclusive test, the area where you work should be a separate room in your home. However, if the area is a common area in your home, it can also qualify as long as you use it exclusively for business. If you have a desk located in a family room, for example, mixing your business correspondence with your personal mail could cause the deduction to be disallowed.

- Exclusive use means that your children cannot use your office computer to do research for school, or to play computer games.
- Regular use does not necessarily mean that you must use the office daily or even weekly, just that you use it on a regular basis. Occasional or incidental use does not qualify for business use, even if the office is used exclusively for business purposes.

To claim that your home office is your principal place of business, you must:

- Perform the most important part of your work there, or
- Use the office for administrative or management activities of a trade or business, and not perform these administrative or management activities



at any other location, such as another office off-site. Administrative and management activities include, but are not limited to billing customers, keeping books and records, setting appointments, calling in orders, ordering supplies, and writing reports.

**Exceptions:** You can claim the home office deduction if you store inventory or product samples there, or if you operate a day-care facility.

If you own your home and are operating your business at a loss, your home office deduction is limited to your direct expenses, which are the deductions normally taken on Schedule A. You can't deduct indirect expenses such as insurance, utilities, and depreciation at all unless your gross income is greater than the sum of your expenses.

#### **FOR MORE INFORMATION**

Because the home office deduction is a complex area that has been the subject of much controversy and many court cases, you may want to look at more detailed discussions of this deduction in IRS Publication 587: Business Use of Your Home <http://www.irs.gov/publications/p587/index.html>

Even then, you divide your office's square footage by your home's square footage to obtain the percentage of your home that you use for business purposes. You then apply the resulting percentage to your indirect expenses to determine your deductible home office expenses.

#### **INSURANCE**

You can deduct insurance expenses as long as they're determined to be ordinary and necessary expenses. Common examples include

- Credit insurance on losses from unpaid debts
- Casualty insurance
- Professional liability or malpractice insurance
- Product liability coverage
- Accident and health insurance
- Overhead insurance
- Vehicle insurance

There are a few types of insurance premiums that you may not deduct. These include:

- Insurance for securing a loan. For example, if you take out a policy on your life in order to obtain or protect a business loan, that premium is nondeductible.
- Loss-of-earnings insurance
- Premiums on certain life insurance policies
- Self-insurance reserve funds (a savings account)

#### **INTEREST**

Generally, you can deduct all of the interest you pay during the tax year on debts related to your business. For example, if you take out a bank loan to help secure additional inventory to increase your business, that interest is deductible.

If you're just starting your business and use a credit card to help with start-up costs, that interest is deductible as well. The source of the interest doesn't matter. If a relative loans you money to start a business, the interest you pay to your relative is also tax deductible.

Watch out for loans that are for both personal and business uses. For example, if you take out a loan for a car that you use in your business and for personal purposes, part of the loan interest won't be deductible. You can only deduct 100 percent of the loan interest if you can prove that you use the car 100 percent for your business.

#### **LEGAL AND PROFESSIONAL FEES**

Fees that you pay to professionals, attorneys and accountants are considered ordinary and necessary when they relate to your on-going business. If you purchase a new business, the fees paid for professional services are added to the tax basis (or cost) of that business.

#### **FOR MORE INFORMATION**

For a comprehensive resource for legal and start-up fees, see IRS publication 535 at: <http://www.irs.gov/publications/p535/index.html>

## TAXES

There are many taxes that you can deduct when operating a business. For example, if your state taxes are based on the gross income of your business, you can deduct the state income tax. You can also deduct your employers share of employment taxes such as social security, Medicare, federal unemployment taxes, and state unemployment taxes.

## TRAVEL, MEALS, AND ENTERTAINMENT EXPENSES

Any payments you deduct for travel, meals, and entertainment must be the ordinary and necessary expenses of carrying on your trade or business. In general, entertainment expenses must be directly related to, or associated with, the conduct of your trade or business. Keep receipts and note the purpose of the expense on the receipt for complete records.

Travel expenses include those for ordinary and necessary travel away from your home for your business. You must meet two conditions to take the travel expense deduction.

1. Your duties must require you to be away from the general area of your tax home (your regular place of business, regardless of where you maintain your family home) substantially longer than an ordinary day's work.
2. You need sleep or rest to meet the demands of your work while you're away from home.

If your trip meets these requirements, you can deduct a wide variety of travel-related expenses, including:

- Transportation expenses (using a plane, train, bus, or car) between your home and your business destination, including taxi, commuter bus, and limousine fares
- Baggage and shipping expenses for sending samples or display materials
- The costs of operating and maintaining your vehicle if you use your car or truck for business travel. You can choose between actual expenses or the standard mileage rate.

- Tolls and parking fees
- Rental car expenses for the business portion of the usage.
- Meals and overnight lodging. Meals are subject to a 50% deduction limitation.

Other deductions traditionally related to business travel include dry cleaning and laundry care, telephone calls (including those made from a plane), use of fax machines, and tips.

### FOR MORE INFORMATION

For more information on travel, see IRS Publication 463: Travel, Entertainment, Gift and Car Expenses.

Meal expenses include those incurred while traveling away from home or for entertainment of business customers at your place of business, a restaurant, or other location. This deduction may also apply to meals you furnish on your premises to your employees.

Entertainment expenses fall into a broad category and include any activity generally considered to provide entertainment, amusement, or recreation. Some examples include: entertaining guests at social, athletic, or sporting clubs, theaters, yacht trips, hunting, fishing, vacation, and similar trips.

## OTHER DEDUCTIBLE EXPENSES

There are numerous other business expenses you can deduct. So far, we've discussed the most common small business deductions. Other deductible expenses include:

- Advertising
- Clean-fuel vehicles
- Donations to qualified charities
- Educational expenses
- Licenses and regulatory fees
- Dues and cost of subscriptions paid to professional organizations or business publications

- Outplacement services
- Penalties and fines you pay for late performance or nonperformance of a contract
- Repayments of income

### **EXPENSES YOU CAN'T DEDUCT**

Some business expenses are not deductible under any circumstances:

- Demolition expenses and losses. (These costs increase your tax basis in the property, reducing your eventual gain when you sell, thus lowering your capital gains tax in the future.)
- Dues to social, athletic, luncheon, sporting, airline, and hotel clubs even if membership is for business.
- Federal income tax payments
- Lobbying expenses
- Penalties and fines you pay to a governmental agency or instrumentality when you break the law.
- Political contributions

## Chapter 5. Further Resources

### WITHIN QUICKEN

#### Getting Started with Quicken

Guide to setting up Quicken for personal use, including tracking expenses, setting up accounts for download and tracking investments. Found in Help > User Manuals

#### Getting Started with Quicken Home and Business

Guide to business use of Quicken, including adding and using A/R and A/P, getting ready for taxes, tracking and paying sales tax and more. Found in Help > User Manuals

#### Small Business Guidance

Legal guidance on setting up a small business, including incorporation, zoning laws, hiring employees, legal liability, insurance, tax info and more. Found in Business > Small Business Guidance

#### Mini Business Planner

Program to guide you through the steps of writing a business plan; includes examples. Found in Business > Mini Business Planner

### ONLINE

#### TurboTax online

<http://turbotax.intuit.com>

Refer for tax tips, guidance on taking deductions and products including TurboTax Home & Business and TurboTax Estimated Taxes.

#### IRS online

<http://www.irs.gov/businesses/index.html>

Complete rules and regulations regarding tax deductions, business taxes and tax forms.

#### Quicken.com

<http://quicken.intuit.com>

Community forums to answer your questions, online help and updates to help you use Quicken to track your consulting business.

#### JumpUp—the place to start your business

<http://jumpup.intuit.com>

Guidance on starting a business, community forums, helpful tools and services for your business.

#### Word of Mouth Marketing Association

<http://www.womma.org>

Ideas on how to generate word of mouth about your business

#### QuickBooks Community

<http://www.quickbooks.com/community>

Find other independent contractors even if they're not using Quicken. Also check out the Women's business center and small business centers.

#### Small Business Development Center—online and local

<http://www.sba.gov/sbdc/>

Set up to provide guidance to current and prospective small business owners. Branches throughout the nation

#### Gross-Up rate calculator

<http://www.paycheckcity.com/covaliant/grossUpCalculator.asp>

Enter in the net pay you'd like to receive, your tax information and figure out the approximate Gross Pay you would like. Divide by the number of hours you anticipate working to approximate your rate. Don't forget you will still have to pay the self employment tax.

#### Finding work

<http://www.guru.com>

<http://www.topechelon.com/>

<http://www.freeagent.com>

<http://www.mrinetwork.com>

<http://www.aerotek.com>

<http://www.craigsl.com>



## OTHER RESOURCES

### The Software Contractor's Guild

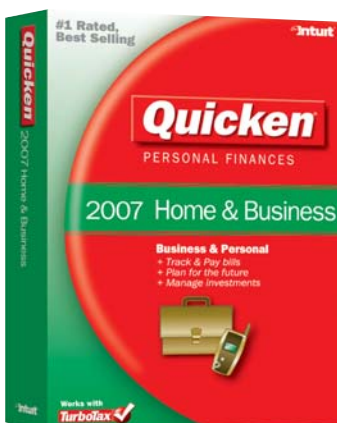
<http://www.scguild.com/sites.html>

Not just for programmers—The Software Contractor's Guild lists many resources for general contracting including where to find affordable health insurance, online job listings and organizations for independent consultants.

### Nolo.com—legal advice

<http://www.nolo.com>

Articles and resources with legal guidance for small business owners.



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