Becoming independent professional consultant!

So, you want to be an independent professional consultant with your own consulting business?

It is gives you the freedom and satisfaction on what you do at your best! But the process involves a lot of learning (accounting included) and the increasing need to value your time (how much time you spent on flipping TV channels this week?). The following will help you to charter your own business framework and the calendar of activities

**Disclaimer:** Instead of putting the disclaimer in the last page, this time it comes from the front page. The activities listed are applicable and currently known to best of my knowledge and learning. The process indicated in this document mostly applies to software consulting business conducted in the state of California. The applicable rules are for the year 2012.

Explanation: pre-registration: steps or activities needed before you obtain state registration of your company. Post-registration: steps or activities typically done after your registration.

High level challenges! The theme you will find again and again handling with tax authorities is whether your activity is a hobby or a profession. To make it a profession, you need to execute all possible actions like having a website, business cards, business emails, business bank account and most importantly business credit cards! The second challenge is pay (salary) for yourself. S-corp laws allow paying ‘reasonable’ salary to the owner/partner.

PRE-REGISTRATION CHECKLIST

|  |  |  |  |
| --- | --- | --- | --- |
|  | Area | Notes | comments |
| 1 | Housekeeping: Find and dedicate a place for your home office. | Beside home office tax deduction, keeping a separate work place at home helps to differentiate work vs. fun. | Decide on desk, computer, phone and printers |
| 2 | Read and understand books on starting your own business | Example: do you know startup expenses up to $5k are allowed in a startup. | Learn the differences of accrual vs. cash based accounting, startup and on-going expenses. |
| 3 | Read and understand how S-corp works. | Besides the tax benefits, in S corp you can pay yourself a reasonable salary. | You have to decide the S corp election in IRA forms. |
| 4 | Research on appropriate company name. | Instead of your first name and/or spouse initials, look for something broader. Who knows, you may go public after few years! | Your LLC name could be lengthier than your website name. |
| 5 | Start your LLC application process. Locate a service provider who handles all the paperwork. Federal Tax ID (like your SSN) is required and the same provider may handle that too. You can submit the application online. | Example: Mycorporation.com Many companies do these services. Compare their services and price range. If you want, you can directly handle the federal tax id process/application. | It may cost about $500+ for LLC with S-corp inclusion and will take a month to get the state’s approvals. |
| 6 | After you submit your application, locate services like company email/phone, conference call services, efax, etc. | Google and Microsoft provide monthly pay services for small company email and outlook. | Single user Microsoft service costs $6/month with email and office web access. |
| 7 | You can register your website, if the web name is not exactly the same as company name. (Since company name approval is still in progress). | Weebly, Google, Microsoft provide services for web hosting. In some sites, you can search your preferred name and wait till the current term ends. You can then bid and get the same site. | Weebly costs $12/year for webhosting. |

POST-REGISTRATION CHECKLIST

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| 8 | 2553 S corp election. Ensure you sent the paperwork to IRS | It takes a month to get their confirmation, but you can proceed with other activities |  |
| 9 | Invest in small business accounting software to manage invoicing/bills | You need separate tax preparation software at the year end, but having quick books helps in data synchronization. | QuickBooks pro (Costco $150) comes with accounting and payroll. |
| 10 | Complete all supporting paperwork sent by LLC registration provider. | Most of them are meant for just keeping organized and future reference. (binder creation) |  |
| 11 | Download W9 form from IRS site. | Fill-up the details. Every client will ask for this copy. |  |
| 12 | Talk to insurance providers on general liability and E&O insurance. Clients expect million dollar liability and E&O coverage. If you are using personal vehicle, then there is no need auto insurance. If using company vehicle, then separate insurance coverage and proof needed. | Different options are available as monthly pay, annual pay, combination of policies etc. | Hanover (thru wells Fargo ) has competitive rates! |
| 13 | It is assumed you already have the medical insurance coverage. | Providers like www.proinsurance.com help to buy competitive medical insurance. Send me email if you need to know the contact details at proinsurance |  |
| 14 | Shop around for life insurance, if not covered already. | Life or term? Do your own research and get competition into play! |  |
| 15 | Go to your current bank and open a business checking (showing your company approval from the state). It is also suggested to get a separate business credit card to monitor the business expenses. | Compare various business checking options of different banks, if you want to have a new banking relationship. |  |
| 16 | Activate your payroll registration (if using QuickBooks) and signup for electronic pay (of taxes). | It takes a week to get electronic pay confirmation from IRS. In future you can just process all the tax payments electronically. |  |
| 17 | Decide on the company logo. If you print company invoices, having a company logo make it professional. | Google on company logo creation and you may be able do it online for free. |  |
|  | Register at EDD (California employment) with your company details. Complete DE9 quarterly | Register your company with EDD. See useful links section. You can complete the quarterly paperwork on line. www.edd.ca.gov |  |

ONGOING COMPANY MAINTENANCE CHECKLIST

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| --- | --- | --- | --- |
| 18 | Pay monthly taxes to FED | IRS on a monthly basis, due by the 15th of the month following the month the payment is being made for | EDD site uses IE and not chrome. |
| 19 | Pay quarterly taxes to EDD | All quarterly filings are due by last day of the month following the end of quarter | EDD site uses IE and not chrome. |
| 20 | If using Quick books, pay monthly salary and its associated federal/tax income taxes. | Tax prepayment is 15th of the last month in each quarter. Company and individual tax prepayment due dates are different! |  |
| 21 | Understand the year-end paper work requirements. | See useful link section below |  |
| 22 | Explore savings like 401k | Compare products from Costco, Fidelity and others |  |

FORMS AND USEFUL LINKS

1.      Once Incorporated, use form **DE 1HW** to register with EDD

(Check this site for more info:  <http://www.edd.ca.gov/payroll_taxes/am_i_required_to_register_as_an_employer.htm>)

2.      EDD filing requirements (see:  <http://www.edd.ca.gov/>)

a.      Quarterly file forms **DE9** and **DE9C**

b.      Quarterly file form **DE88** and make required payment for UI, ETT, DI, and PIT,

3.      Federal filing requirement

a.      Make **federal tax deposit** to IRS on a monthly basis, due by the 15th of the month following the month the payment is being made for.

 i.     For example, the Fed tax deposit for Aug 2012 must be made by Sept 15, 2012.

 ii.     Set up and account with EFTPS for making Fed Tax deposit online (<https://www.eftps.gov/eftps/index.jsp>)

 iii.     You can schedule 12 monthly payment on EFTPS ahead of time

 iv.     Federal Tax consists of the following –

        Social Security – Employer portion (6.2 %) and the Employee portions (4.2 %)

        Medicare – Employer portion (1.45 %) and the Employee portions (1.45 %)

        Fed Income Tax – based on the salary

b.      Monthly payments to Fed Govt. are filed on quarterly **Form 941**

 i.     Form must be filed by last day of the month following the end of quarter (see: <http://www.irs.gov/instructions/i941/ch01.html>)

 ii.     Reflects the payments made in 3(a) above

4.      CA Franchise Tax: Form **100ES**

a.      Minimum payment of $ 800 per year, regardless of the revenues/income, is due by March 15th of each year

b.      For S-corps the CA franchise tax rate is 1.5 % of the Net Income.  You must pay estimated taxes quarterly on form 100-ES, if you anticipate net income to be > $ 53,333  (=$800/1.5%)  
(Note, LLC requirements appear to be different from S-Corp)  
See: <http://sjdelta.toolsforbusiness.info/california/Kitb/cacorpqtrly/corporation/>

See: <https://www.ftb.ca.gov/businesses/bus_structures/LLCompany.shtml?WT.mc_id=Business_Popular_LLCstructure>

5.      Statement of Information (Secretary of State)

a.      When the business is first formed you must file an ‘SOI’ form with the SOS

b.      Thereafter, SOI form **SI-200-NC** must be filed every year.  The fee is $25 per filing.

c.      You can be file it online at  [https://businessfilings.sos.ca.gov/](https://businessfilings.sos.ca.gov/" \t "_blank) <http://www.sos.ca.gov/business/corp/pdf/so/corp_so200.pdf>

d.      Filing deadline – Dec 31st of the year

6.      Year-end close: Form 940

a.      **Annual Federal Unemployment Tax** (“FUTA” Form 940) to be filed with IRS by Jan 31st for the previous fiscal year

b.      The tax amount is somewhere between $112 to $153 for S-Corps  
(Note: Q4 payment, although made in January, can be taken as an expense in the previous year)

7.      Year-end close:  Forms **W2, W3, 1099s**

a.      Forms W2 and W3 are files with the SSA, but not sure about 1099s

b.      Filing deadline is last day in February if filing paper W2/W3; for electronic filing, the deadline is March 31st   
(see: <http://www.ssa.gov/employer/firstFilers.htm>)

(see: <http://www.ssa.gov/employer/index.htm>)

 Note, S-Corps and LLC’s are considered “pass-through” entities, therefore, the net income must be distributed to the shareholders/owners after the year-end close (Retained earnings are allowed for C-Corps only.)

9.      Business Tax Filing

a.      File tax on **100S**(for an S-Corp) once all bookkeeping tasks are closed for the previous year  
(Need P&L and Bal Sheet handy to file and fill out the form correctly)

b.      If business taxes were underpaid (see #4 above), you will pay the difference; however, if overpaid, you’ll get a refund.

c.      Business filing is due by Mar 15th of each year

d.      Biz tax filing generates **form K-1** – Shareholder’s Income/Loss.  This form is required for personal tax filing as a proof of profit/loss from business.

10.   Optional Considerations

a.      See liability insurance or E&O insurance for the business

b.      Set up SEP IRA accts for the employees. Costco has owner 401k with $144/year fee. Fidelity has fee-free owner 401k plan

(Business can pay up to 25% of the salary tax free into the SEP IRA acct for its employees)

c.      As a business, apply for group health insurance for employees with any insurance company

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