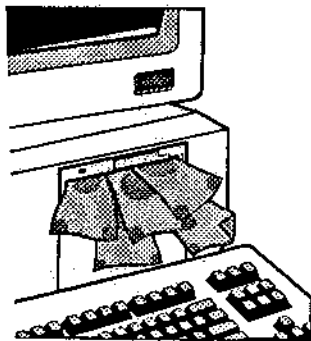


INDEPENDENT PERSPECTIVE

Newsletter of the Consulting and Independent Contracting Professional Interest Committee Spring 1995



It's always surprising that most contractors or independent consultants don't really understand the cost of doing business. When a new contractor gleefully announces a new contract at a whopping rate of \$25 or \$30 an hour, I always get a little weak in the knees. "But that's \$52,000 to \$62,000 a year," he wails. "Yes, I know. But have you considered the cost of doing business?" Usually he hasn't.

The cost of doing business

A reality check
by Karen Steele

Recently I put some figures together on the heels of what I considered to be an excellent offer. You be the judge. For the sake of this example, let's say that your new contract is for \$50 per hour, 40 hours a week for the period of one year. (Using even numbers will keep these examples clear). $\$50/\text{hr} \times 40/\text{wk} \times 52 \text{ weeks} = \$104,000/\text{year}$. Sounds pretty good, huh?

Less self-employment tax

Well... let's put a fine point to these numbers. To begin with, how

about self-employment tax (otherwise known as the employer's portion of Social Security)? That's a whopping 7.065% off the top: $\$104,000 \times .07065 = \$7,956$

We won't count your income tax, as you'd pay that whether you were self-employed or not. And being self-employed will benefit you at tax time, though it's difficult to come up with a formula to assess that benefit.

And time off

It's important when calculating your pay to remember holidays. I use an average of 8 holidays per year in my calculations: $8 \text{ hrs} \times \$50/\text{hr} = \$400/\text{day}$; $8 \text{ holidays} \times \$400 = \$3,200$ holiday (lost) pay.

Life wouldn't be good without a vacation, so let's add vacation (lost) time into the mix. Here we're using an average of 10 vacation days: $10 \text{ days} \times \$400/\text{day} = \$4,000$ vacation (lost) pay...and while we're at it: $5 \text{ sickdays} \times \$400/\text{day} = \$2,000$ sick (lost) pay.

So far we've subtracted \$17,156 from the total. Now it's time to look at the benefits expense. While many folks believe they can cut corners on benefits,

it's hard to understand why they'd be self-employed if they weren't going to take good care of themselves.

And benefits

Here are a few of the benefits from my list—
Health insurance: average cost (80/20 traditional plan), $\$320/\text{month} \times 12 \text{ mos.} = \$4,224/\text{year}$.
Dental insurance: $\$60/\text{qtr} \times 4 \text{ qtrs} = \$240/\text{year}$.
Disability insurance: $\$92/\text{mo} \times 12 \text{ mos} = \$1,104/\text{year}$.
Life insurance (term): $\$50/\text{mo} \times 12 \text{ mos} = \$600/\text{year}$.

That's an additional \$6,168 in benefits subtracted from the total.

Now that we've taken care of you and your benefits (as any good employer should do), let's turn our attention to business costs.

The following figures are mine, and I believe a very average cost for the contractor or consultant maintaining an office in the home. I have not subtracted rent, utilities, or any of the more subtle items that your accountant will go after. These are just the obvious things.

(See Cost, page 7)

In this issue	
From the editor	2
Consultants' roundup	3
Car deductions	4
STC Conference highlights for C&I's	8

In this issue	
From the editor	2
Consultants' roundup	3
Car deductions	4
STC Conference highlights for C&I's	8

one year. (Using even numbers will keep these examples clear). $\$50/\text{hr} \times 40/\text{wk} \times 52 \text{ weeks} = \$104,000/\text{year}$. Sounds pretty good, huh?

Less self-employment tax

Well... let's put a fine point to these numbers. To begin with, how

days $\times \$400/\text{day} = \$4,000$ vacation (lost) pay...and while we're at it: $5 \text{ sickdays} \times \$400/\text{day} = \$2,000$ sick (lost) pay.

So far we've subtracted \$17,156 from the total. Now it's time to look at the benefits expense. While many folks believe they can cut corners on benefits,

age cost for the contractor or consultant maintaining an office in the home. I have not subtracted rent, utilities, or any of the more subtle items that your accountant will go after. These are just the obvious things.

(See Cost, page 7)



From the editor

Every article but one in this issue got to me through electronic mail. In today's whirlwind of technology, this news may strike you as ho-hum. For me, however, it is a real relief. I can't tell you how many submissions I have retyped because they were delivered to me in paper or fax form. Even documents mailed on a diskette, while a drastic improvement, do have the same time delay associated with traditional mail.

Of course, this is not a publication where time delays affect much. We seldom are current enough with our production process to report on an event that's even as long as a month away by press time. Being spread out nationally and especially being tethered to the reins of our capricious business make it impossible to join forces with the relay-team precision needed for a timely newsletter.

We need your help. If you're a dedicated, driven professional who can do good work fast,

Spotlight your talents

for free, and have a great time doing it, consider signing on with the *IP*.

We need a new layout editor. Responsibilities include: DTP layout (Ventura Publisher preferred); light copy editing and

This is where time-savers like electronic mail earn their keep. When I have just a few hours to work on the *IP*, just a few days before it's due in Cal's hands, I can remind my planned contributors and receive their work in a pleasing modicum of elapsed time. You're still not receiving up-to-the-minute news, but at least I'm catching up on my month-and-a-half delay!

So don't be afraid to e-mail me with your thoughts, articles, thoughts about articles, letters, or other IP-related stuff. My signon is SuznWitter@aol.com. And if you aren't plugged in yet, please send a diskette. I was looking for someone to write about how independents can stay abreast of new technologies, but the jury may still be out on the answer to that one. If you've got anything to say on that score, please do!

Susan

writing (e.g., subtitles, occasional titles, pull quotes, editing to fit); distributing proofs and masters to the Managing Editor, Copy Editor, and Production Coordinator, as appropriate; planning and coordinating with the Managing Editor, and graphic design to evolve the newsletter as necessary. The position usually entails 10 to 12 hours quarterly.

INDEPENDENT PERSPECTIVE

Vol. 6, No. 2 Spring 1995

Published quarterly by the Consulting and Independent Contracting Professional Interest Committee (C&IC PIC) of the Society for Technical Communication.

Managing Editor

Susan Witter

Copy Editor

Kevin Sunderman

Layout Editor

Cal Callahan

Production Coordinator

Jo Byrd

Deadlines for submissions:

Summer Issue—April 25

Fall Issue—July 25

Winter Issue—October 25

Spring Issue—January 25

Send contributions to:

Susan Witter

2416 Henry St.

Bellingham, WA 98225

E-Mail: SuznWitter@aol.com

Please submit long articles via E-mail or in both paper and electronic form (IBM text or Word format preferred)

Copyright ©1995 STC

All rights reserved

Printed in USA

The returns? Pride in a job well done. The pleasure of meeting creative challenges. Satisfaction that you've contributed to the success of other PIC members. And another impressive line for your resume.

For more information or to offer your much-needed talents, call Susan Witter at 360-715-8404 or e-mail her at SuznWitter@aol.com. **IP**



Rounding up consultants

By Raymond E. Urgo

If your Consulting and Contracting SIG is interested in opening up new doors to its members and to consultants from other association groups in your city, try sponsoring a Roundup of Consultants. This is just what the C&C SIG of the Los Angeles chapter did in September of 1994. This article describes why and how this first-time event took place, along with some lessons learned.

The purpose of the Roundup of LA Professional Consultants was for associations to exchange information about their contractors' and consultants' groups; and for contractors and consultants to exchange information about their professional work.

The expected benefits were that there was something for everyone: for the invited associations, added publicity and possibly new members; for the consultants, new business networking contacts and opportunities with other consultants, plus information about other associations for future sources of working relationships; for the hosting SIG, publicity and fund-raising money; and for the region's economy, new business.

The SIG's steering

committee approved a proposal to host this roundup. Two people volunteered to co-chair the event. Other SIG members volunteered to assist with promotional materials, mailings, phone calling, arrangements for banquet and meeting room, name badge preparation, greeting guests, and attendees' evaluations.

Publicity

Our strategy for publicizing the event occurred in three stages. First, we identified the local association groups we wanted to invite. These groups were involved in such fields as communications, training and instruction, organizational development, medicine, engineering, software, and consulting.

Next, we sent promotional materials to each group's president, newsletter editor, and publicity officer. With the promotional materials, we asked them to internally advertise the event to their consultants and contractors.

Finally, we advertised in newsletters of four local STC chapters and in a special mailing to our C&C SIG members.

The event

The event occurred between 7 and 9 pm in a hotel's banquet-meeting room. Tables were set up around the walls of the room. One wall of tables was a buffet of appetizers, desserts, and

beverages. On another wall of tables, representatives of the invited associations displayed literature about their organization, programs, etc. On the remaining tables, the consultants displayed work samples and brochures about their consulting practices.

More than 60 people attended from about 12 of the 20 invited associations. When asked on the evaluation form what they liked best, attendees stated: sharing insights, networking, location, food, people, met a couple of key people, saw old friends, well planned. When asked for recommendations for improving the event, attendees responded: hold it regularly, keep up promotion, more and better publicity, get more associations to attend, and do it again. More than three months later, people are still speaking of the event or have mentioned having met (you or someone) at the Roundup.

Lessons learned

Our biggest obstacle was getting our promotional information to the right people at the other associations for publicity to their consultants and contractors. This was an obstacle because we began our publicity in late June. We later realized that our promotional materials sometimes fell through the cracks due to some

(See Roundup, page 6)

A self-employed friend of a friend once told me she never leaves her house unless she can deduct the trip.

Focus on Consulting

Deducting the business use of your vehicle

Copyright ©1995 by
Christopher Julliet
All rights reserved

"Never?" I asked.
"Well, *almost* never."

The point she was making is that as a self-employed professional with an in-home office, she made sure that whenever she used her car, she conducted sufficient "business" (for example, stopped by the printer or copy shop) so that she could include the trip in her travel log as a justifiable business trip.

In this Focus on Consulting, we'll have a look how to handle, record and safely deduct expenses related to the business use of a vehicle by self-employed consultants. It's not terribly difficult, but as with most other issues involving the Internal Revenue Service and our nation's tax code, there are a few tricky bumps and turns that you need to know about when you're running your own business.

Now, as I always remind readers when I start on about tax issues, I am not an attorney or an accountant. That doesn't mean I don't know what I'm talking about, just that I don't have malpractice insurance to protect me from myself and the things I

tell others. If you have any questions about issues of expense deductibility, consult with an attorney or accountant, or with the IRS.

What constitutes business use?

First things first. What, exactly, is the business use of a vehicle? Is it the mileage you, as a direct employee, drive to your employer's place of business? No. Is it the mileage you, as an independent contractor, travel to drive from your office to your clients' site to meet, greet and consult? Yes.

Basically, business use of a vehicle is exactly that: Any use you make of your car that substantially involves the conduct of your business. Trips to the cleaners are out, but trips to the printer or office supply are in. Trips to drop your child at daycare are out, but trips to the post office to buy stamps for your business are just fine.

Careful readers will correctly conclude that many of these trips can be run at the same time. For example, you might decide to swing by the post office to check the P.O. box on the way to or from daycare. For the most part, that's OK, but not if you're driving 40 miles to and from daycare to visit the post office that is two miles from home. I recommend the duck test to stay clear of trouble: If it

doesn't look like a duck or quack like a duck, it probably isn't deductible.

Note that if you maintain an office outside of the home, trips between home and office are not deductible, since they're considered by the IRS to be "commuting." This also applies if you go directly from your home to a client's site before you go to your outside office. Since this is the "first trip of the day," you cannot deduct the entire trip, but only those miles that exceed the distance between your home and office. The inobvious benefits of maintaining an in-home office now become clearer.

Deductible expenses

There are two ways that you can deduct the expense related to using your vehicle for business purposes: 1) using the standard mileage allowance or 2) deducting depreciation and operating expenses. Each has advantages and disadvantages.

Standard Mileage Allowance — The easiest way to deduct the business use of your car is to apply the standard mileage allowance to the number of business miles you drive during the year. For taxable year 1994, this rate is 29 cents per business mile. Note that this is the

(See Focus, page 5)

Focus (from page 4)

"you need to keep complete and accurate records"

easiest way, not necessarily the best way, to deduct your business driving. If you have an inexpensive car that gets good fuel economy, you might be ahead to use the standard allowance. If, however, your car is new and/or reasonably expensive to buy and operate, you'll probably do better to deduct depreciation and operating expenses based on the percentage of your driving that is business-related.

If you have already begun to deduct a portion of vehicle depreciation and expenses, you cannot change to standard mileage allowance, since this allowance takes depreciation into account. You can, however, go the other way and convert from the standard mileage allowance method to the depreciation and expense method, subject to some IRS complexities best left to your tax preparer to handle.

Depreciation and operating expenses — Deducting depreciation and expenses offers most independents more flexibility in managing their tax profile. (Indeed, if you use more than one vehicle in your business, you *must* use this method for all of those vehicles.)

The basics are pretty straightforward: Keep track of the total miles driven for business during the year for the vehi-

cle, then calculate the percentage of the total miles driven for the year that are for business purposes. Apply this business use percentage factor to the maximum allowable depreciation each year: first year maximum (business %) x \$2960; second year maximum (business %) x \$4700; third year maximum (business %) x \$2850; fourth and later years maximum (business %) x \$1675.

If your business use percentage changes from year to year, you don't need to go back and amend your earlier returns. If, however, your business use of the vehicle falls to 50% or lower, you might need to declare a portion of the depreciated amount as income for that year (referred to as "recapturing" the depreciation).

IRS regulations allow you to deduct up to \$17,500 in equipment expenses each year (called the Section 179 deduction). This can include a portion of your vehicle depreciation in the first year the vehicle is used for business. The remaining depreciation is taken according to the depreciation schedule.

You can take the Section 179 deduction as long as your business use is more than 50% of the total vehicle use for that year. As before, if your business use later falls to 50% or less, you might need to recapture

a portion of the depreciation as income.

As for operating expenses, they include costs for fuel, oil, repairs, tires, parking, tolls, insurance, licenses and interest on your car loan. They don't, however, include such items as parking or speeding tickets. Again, multiply your operating expenses by the percentage of business use to determine how much to deduct.

Recordkeeping requirements

Whichever method you choose to deduct business use of your car, you need to keep complete and accurate records that document the trips you make, where you go, what you do and the miles you drive. Get and maintain a car trip log.

I've seen and used a variety of car trip logs over the years. The one I like best, use myself and recommend to others is the *Dome Auto Mileage Log and Expense Record*. Developed by a certified public accountant named Nicholas Picchione, this log is the best I've seen. It has plenty of space to document your trips and operating expenses. You can find it at any well-stocked office supply.

As the IRS folks are fond of saying, "No records, no deduction." So keep your trip log up to date. Log the date of

See (Focus, page 6)

Focus (from page 5)

each trip, the starting and ending mileage, the destination and the purpose of the trip. If you're deducting depreciation and actual expenses, you also need to record all operating expenses, such as fuel, service, supplies, insurance and license fees. And don't forget to save those receipts. I generally pay for my operating expenses with a credit card. That way, I have a bullet-proof audit trail of my expenses.

I also began this year to use a computer application I wrote to keep

track of my mileage and expenses. Every month, I bring my log in and take ten minutes or so to enter my trips and expenses. The system does the arithmetic for me and prints out a trip and expense log if I want. I can even see what my percentage of business use is anytime I want by entering the current odometer reading.

For more information

Ever helpful, the IRS provides a reasonable summary of the regula-

tions relevant to deducting the business use of vehicles. For detailed information, refer to IRS Publication 917, *Business Use of a Car*. **IP**

Christopher Juliet is an independently employed technical writer, consultant and publisher of the Independent Consultant's Briefing, a quarterly newsletter for and by independent consultants. He also writes computer applications to help independent consultants run their businesses more efficiently. Email: 70272.1327@compuserve.com.

Roundup (from page 3)

officers transitioning into newly elected positions or being on vacation during this time of the year. Promoting the event earlier, and conducting more follow-up phone calls, may have prevented this problem. Because the promotional information was not fully publicized by all the associations, we had a smaller turnout and lost about \$250 in sponsoring the event.

We also learned that we needed to better communicate to each

association the unique opportunity and benefits to promote their association at a table. Attendees were disappointed that more associations did not represent themselves with literature. It was also suggested that each association be given two minutes to introduce themselves and their purpose.

Finally, we learned that while the event may not have been perfect, it was a success in that it was warmly welcomed, benefited a vari-

ety of needs, and that it should be repeated.

For further information, contact me at 213-876-2186 or E-mail rurgo@aol.com. **IP**

Raymond E. Urgo is the principal of Urgo & Associates, specializing in procedures consulting for organizations. He is manager of the Policies & Procedures PIC; First VP of Programs for the LA Chapter; a member of the LA Chapter's C&C Steering Committee, and chairperson of the LA Professional Consultant's Roundup event.

Costs (from page 1)**And business costs**

Capital equipment expense (computers, copiers, fax machines, etc.): \$5,000/year. Many of you may note this is a conservative figure.

New software, upgrades, etc.: \$750/year.

Stationery, stamps, office supplies, etc.: \$500/year.

Car expense driving from your office (at home) to the client site. If you change your oil every 3,000 miles and you average 22,000 miles per year, you will have at least 7 oil changes. \$15/oil change x 7/yr = \$105/year. Also, the government figures wear and tear on your car at \$0.26/mile. Therefore, 22,000 miles x \$0.26 = \$5,720/year.

Travel (for annual conference, etc.); remember, this is part of your vacation: \$1,000/year.

Educational seminars, workshops, etc. (you

must stay current!): \$400/year.

Research materials, periodicals, etc.: \$500/year.

All this adds up to another \$14,475 in business expense.

Retirement, too

There's one more thing you need to think about: the cost of your retirement. If you worked for someone else, you'd probably have a pension plan or at least a 401K. While working for yourself, providing this benefit safeguards your future. An employer-provided 401K allows a 12% deposit per year. Let's assume you provide this for yourself: \$104,000 x .12 = \$12,480/year.

What's left?

\$104,000 minus \$58,235 in expenses (\$7956 additional Social Security + \$17,156 holiday/sick/vacation + \$6168 in benefits + \$14,175 in business

expense + \$12,480 retirement benefits) = \$45,765.

Imagine what that total would be if we added attorney's fees, accountant's fees, and business insurance.

At the end of this financial figuring session, I raised my rates. Why would anyone experience all the pain of self-employment without the promise of substantial financial gain?

Using these figures when estimating your rate for a proposed job will help you bid more accurately. If you can't afford to support business to the extent that it offers benefits, tools, and time off, you may want to consider whether self-employment is your first choice. **IP**

Karen Steele is president of Steele/CASE Communications, in Garland, TX. She is also manager of the Consulting and Independent Contracting PIC.

Conference (from page 8)

new heuristics, and in being aware of shifts in the profession. Some of us may have at best a loose circle of colleagues with whom we share information. An STC Conference is an excellent opportunity to at once enrich our knowledge and strengthen the circle.

Those of you who have not been able to

attend the conference in the past will be delighted with the opportunity to meet and share with other professionals who work independently, and who share many of your dreams and concerns. I have often found myself calling folks I met at an STC conference for help during the year. And they

always have good information, a kind word of encouragement, and sometimes a funny story to help me along the way. The camaraderie and support you receive from this kind of networking will be a valuable tool in building your business. **IP**

(Karen's blo is at the end of the article above.)

Ever wonder how much other communicators are getting paid? Which job skills are hot—and which skills you probably won't need in the future?

STC Conference: view from the independent's perspective

Exciting events for C&IC PIC members, plus many targeted general conference sessions

by Karen Steele

Come to the 42nd Annual STC Conference in Washington DC, April 23rd through 26th and find the answers to these and many other questions. At the conference we'll announce the results of the C&IC PIC poll. Lori Corbett and Chuck Arnold will present the poll results to the membership at the

annual C&IC PIC meeting, which will be held Wednesday morning from 8:30 to 10 a.m. We will have many issues to discuss and new positions to fill. We plan to recruit volunteers for a whole raft of new projects, so please plan on coming early, and bring lots of good ideas with you!

Do you have a local C&IC PIC? If not, would you like to start one? Would you volunteer to be a regional coordinator in your area? These are just some of the things we'll be looking for.

This year, in addition to the annual PIC meeting, we will have the opportunity to meet and plan a new year of activi-

ties during the PICnic luncheon, and to learn from several seasoned professionals at the C&IC Progression.

General conference sessions especially of interest to independents include how to contract and be contracted, new markets for the technical writer, contract writing, and dealing with difficult customers, to name a few. And these don't even count the topics related to the type of technical writing we do!

Independent contractors and consultants are particularly vulnerable to falling behind in adopting new technologies, in understanding
(See *Conference*, page 7)