



Your clients call you a Freelancer, Consultant, or an Independent Contractor...but what would the IRS call you?

As an Independent Contractor you are hired to do a specific job, receiving payment only for the work you perform. Unlike a regular employee, you pick your jobs and regularly move from client to client. You have a specific skill and an established business. You report the payments you receive as business income and you pay self-employment taxes.

Hiring you as an Independent Contractor is attractive to companies looking for outside creative resources, and who want to outsource work that is not central to their main line of business. The work is project-oriented and is typically completed in a short amount of time. And your clients are better able to meet budget by paying you as a vendor, not as an employee.

But there's a big catch. The IRS has very strict guidelines that define true business to business relationships. These guidelines are meant to prevent firms from misclassifying would-be employees and thereby avoid, either knowingly or unknowingly, a bounty of state and federal taxes.

So again the question, **are you really an Independent Contractor?** This is a complex question that's important to answer correctly, because the risk of you or your clients facing an IRS audit has never been greater.

Your clients must also act in accordance with IRS guidelines when hiring and working with Independent Contractors. If they have questions, send them to www.payreel.com/resources to review our guide ***Best Practices for Working with Independent Contractors***.

Remember, when you're a legitimate Independent Contractor, your value in the market-place can't help but go up.

Following is a list of essential steps to help assure your compliance. We've also included links to several online resources you will find very helpful.

PayReel and sister company Crew Connection have 35 combined years of experience helping companies navigate this complex issue. Call us at 303-526-4900 or email info@payreel.com.

Setting Yourself Up as an Independent Contractor

Independent contractors are business owners. Establishing a business is a straightforward process if you know what steps to take and where to get the help you'll need.

Step One: Set up and register your business

- Choose a name and decide on the best form of business ownership (e.g. LLC, S-Corp, C-Corp, etc.) for you. This will impact many things including taxes and your personal liability. Visit www.sba.gov/smallbusinessplanner/start/nameyourbusiness/index.html for more info.
- Most states have unique license and permit requirements for business registration. This information is readily available online. Using your search engine, enter "register a business in <your state>".
- No matter where you do business, you need to apply for a federal Employer Identification Number (EIN). This is easily accomplished from the following IRS webpage: <https://sa1.www4.irs.gov/modiein/individual/index.jsp>

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Step Two: Business insurance

Protect yourself and your business. Talk to your insurance agent about the following policies:

- General Liability – protects against claims for personal injury, property damage, associated legal fees, etc.
- Worker's Comp – this insurance pays for you and your employees' medical expenses if they're injured while working. The amount of insurance required varies by state. Even if you don't have employees, many large companies require their vendors to carry this coverage.

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Step Three: Banking

- Since you'll need to keep your business and personal finances separate, you should set up a bank account for your new company.

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Step Four: Marketing

- A great way to market your business is through an attractive nice looking, informative website. (A Facebook page is also a good idea.) For easy, do-it-yourself websites check out www.godaddy.com/hosting/website-builder.aspx?ci=9028.
- Post your business on online directories; ProductionHub for example www.productionhub.com
- It is also important to have your own business cards, letterhead and invoices.

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Step Five: Equip your business

- Independent contractors typically don't use their clients' equipment. You may already own everything you need. If not, consider leasing your equipment. Check out the following site for more information: www.sba.gov/smallbusinessplanner/start/leaseequipment/index.html

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Step Six: Manage your business

- Develop an Independent Contractor Agreement. Your larger clients will most likely require you to sign their own such document, but it never hurts to have your own. Either way, this is an important document. Click on the following link to see a sample agreement: www.smallbusiness.findlaw.com/business-forms-contracts/business-forms-contracts-a-to-z/form1-36.html
- Set-up an accounting system for invoicing and receivables tracking. www.quickbooks.intuit.com/pro/features
- Pay yourself and pay your taxes.

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We recommend engaging an accountant and/or an attorney to guide you through this process. You can also learn more from:

- www.legalzoom.com/business-formations/business-formations.html, or
- www.smallbusiness.findlaw.com/business-structures/business-structures-help/business-structures-lawyer.html

Call PayReel at 303-526-4900 or email info@payreel.com. Let us help you.