

# Establishing Yourself as an Independent Contractor


## What You Need to Know

### Contract Basics

- Read the contract carefully
- Watch for:
  - Penalty for quitting early
  - Non-disclosure agreements
  - Non-compete clauses
  - Payment methods and timing
  - How and when you'll be paid

### Business Entity – Recognized Legal Entity

- Sole Proprietorship
- 90% of consultants are sole proprietorship
- Can include spouse
- Partnership
- LLC (Limited Liability Company)
- S-Corporation
- C- Corporation



*Talk to SCORE or your tax accountant about what organizational structure is best for your circumstances.*

### Obtain a Business License

- Obtain a business license for the cities that you work in, but also where your office is located
- License is available through the municipal government
- Complete the form; pay the fee (e.g., San Jose = \$150/year)
- Renew annually

### Tax Concerns for 1099 Contractors

- Receive a 1099 federal income tax form from the client
- Get a Federal Tax Identification Number — employer identification number (FEIN)
- Pay self-employment taxes and estimated taxes quarterly
  - Income tax + self employment tax = taxes owed quarterly
  - Self employment tax is 15.3% of earnings (12.4% for social security + 2.9% for Medicare)
- Set up a retirement plan, if desired (opportunity to shelter income)

### Insurance to Consider

- Medical/Dental
- Life
- Disability
- Umbrella — fills cracks
- Car
- Business liability — protects against simple damages
- Errors and omissions — protects against bad work

For more information contact your local [SCORE](#) or [Small Business Development Center](#).