



Managing Your Finances – The Business of Consulting

- **Professional advisors**
 - Just as we want to be hired for our professional advice because there is a value-add...you'll want a good accountant, lawyer and insurance agent, preferably all specialized in working with small businesses.
- **Business model**
 - Corporation? Partnership? Sole Proprietor?
 - Seek advice from a good small business accountant to determine which is best for you.
 - If incorporating, do you want to include your spouse as a shareholder (provides opportunities for income splitting).
 - Depends on your intended length of time consulting – an interim business strategy or in for the long haul.
 - Depends on your expected income, cash available to cover cost of set up and tax situation.
- **Banking**
 - Separate business bank account.
 - Separate business charge card.
 - Keep on top of your banking at all times.
- **GST**
 - Over \$30,000 income must register.
 - Advisable to register anyway – issue of professional appearance.
 - May want to use quick method for ease of bookkeeping (under \$200,000 revenue).
 - Easy to do over the phone or online – instant registration.
 - Don't forget to set money aside to remit it at year end or quarterly instalments!

- **Rates**
 - Start in the right place on the fee scale!
 - Find your peer group (similar skills, experience, service offer) and benchmark against them. You want to be consistent with that group – neither substantially above or below them. Don't undersell yourself. You don't help yourself and you don't help your colleagues.
 - IABC Company of One does a small fee survey every year or two. Check it out.
 - When you are planning your rates, assume you'll work about 20 to 25 billable hours a week if you are truly consulting. (Contractors work more.). The rest of the time will be taken with marketing, administration, travel etc.

- **Insurance**
 - Commercial general liability – almost all large clients require you to have this. Minimum \$2 million liability and non-owned auto coverage.
 - Disability – if you were disabled and couldn't work, would it be a real hardship? Then, consider investing in disability insurance. Always pay from your personal account, not your business.
 - Errors & omissions – not required, although a few have it.

- **Bookkeeping**
 - Do yourself or hire someone?
 - Get and keep organized!
 - Get a good software program if you intend to do it yourself – e.g. Quickbooks Pro
 - If you are doing it yourself – keep up your tracking at least weekly.
 - Invoice! On time, every time. You don't get paid if you don't invoice.

- **Paying yourself**

Consult your accountant for advice on what is best for you

 - Salary – You contribute to EI & CPP, pay yourself from your corporation or partnership.
 - EPSP (employee profit sharing plan) – You don't contribute to EI or CPP but it costs to set up and requires diligent record keeping and another separate bank account.
 - Dividends – Provides a different tax status. You can pay yourself or your spouse if he/she is set up as a shareholder.
 - Spousal pay – If your spouse is active in your business, there may be opportunities to pay him/her directly.

- **Invoicing**
 - Invoice on time every time. End of month works well, but you choose.
 - Business terms – You can try for faster turnaround on your invoices, but most clients work on net 30 terms.
 - Pre-pay – For some projects, you may want to consider asking for a portion of the fee in advance.
 - Are you charging fixed fees for a project or hourly rates? Be clear.

- Keep track of your receivables. If you haven't been paid in 40 days, follow up!
 - Ask if the client has an automatic deposit system if you're going to be working with them for a while. And, then sign up for it right away.
 - Make your invoices clear and easy to interpret.
- **Benefits**
 - Health insurance – Unless you have spousal coverage, you'll have to buy your own plan from Blue Cross, AMA etc. You can pay from your business.
 - Health trusts – Require set up of a trust account with an appropriate provider. Allows you to pay your health costs from your business as a tax deductible expense (with an administrative fee on top).
 - IPP (Individual Pension Plan) – You can contribute to your own private pension plan.
 - Vacation – hmmm. There isn't any way around this☺ You have to save up to keep paying yourself when you go on vacation!
 - **Financial Planning**
 - You are your own financial manager.
 - Save for – Rainy days and slow periods (you'll still want to get paid, right?); capital expenditures (computers and other required equipment); GST instalments; year end taxes (Provincial and possibly topping up your Federal if you haven't made enough instalments during the year); retirement.
 - Pay attention to cash flow – You'll want to have as steady a cash flow as possible so plan your work and your expenditures accordingly.

*Presented to joint IABC/CPRS Consulting Skills Workshop
January 28, 2011*

Glenna Cross, ABC, MC
President
Cross Wise Communications Ltd.
www.cross-wise.ca

©Cross Wise Communications Ltd.

This checklist is based on my own personal experiences and the advice and counsel I've received over the years of creating and running my own company. It is not in any way intended to offer financial, legal or other specific advice to new consultants. Its sole purpose is to offer a list of things to consider and a reminder to consult the appropriate professionals.