

# It's <sup>all</sup> ~~None~~ of Your Business

## Think Outside The Home: Teaching Opportunities And Options Part 1: Independent Contractor Or Employee

A home studio is not for everyone. Home ownership may not be feasible or funds may not be available for purchasing a quality instrument. I can just hear my banker friends saying “But that’s why the banks are here! We can help.” However, the choice to add debt may not be attractive either, especially for young professionals with student loans. Home studios/ownership may not be compatible with contemporary lifestyles that include urban apartment living, delayed marriage or a desire for mobility.

Of course, there are very successful studios located in homes. I have noticed many successful home studio teachers have the mindset of owning “a business that happens to be in a home” instead of owning a “home that happens to include a studio.” The business aspects of a home studio can

be daunting and must be approached with a commitment to treat the studio as a business organization.

An alternative is to let others manage the business aspects while you focus on teaching. That’s what I chose (and loved!) during my first 10 years after graduate school. I taught private and group lessons at an independent piano academy. The experience was priceless. I honed my teaching skills, earned a good living and built a strong network of colleagues.

Today there are a multitude of teaching opportunities besides faculty positions and home studios. This column is the first in a series that will examine and profile different business formats for independent teachers—formats as diverse as several teachers collaborating under one roof, to online services that arrange students for multiple teachers, to non-profit music schools that have a broad community-based mission.

An important first step is to understand whether you will be hired as an employee or independent contractor. This can be tricky because the same format might have different answers. One music store might hire you as an employee, but a different music store in the same city might hire you as an independent contractor. There are pros and cons to each scenario, as well as varying degrees of control and freedom for the teacher.

### Employee

If you are an employee, then the organization holds control. It establishes what work will be done and when/where/how it will be done. There is a boss. The organization pays you a wage (or salary) and withholds income and payroll taxes. It pays Social Security/Medicare taxes on wages—7.65 percent is paid by the organization on your behalf; you pay 7.65 percent through payroll withholding.<sup>1</sup> The employee receives a W-2 statement and reports income on Form 1040. The employee does not deduct most expenses because the employer is responsible for providing essential facilities, equipment and supplies.

Additionally, an employer may:

- set non-negotiable wages
- provide training
- restrict the individual from working for other organizations
- require attendance at meetings
- provide benefits (health insurance, retirement)
- reimburse certain expenses related to the job

### Independent Contractor (Or Self-employment)

If you are an independent contractor, *you* control the when/where/how of what you do. The organization pays the independent contractor a fee and engages him/her for a particular result. The independent contractor

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determines the means and method of accomplishing the result. The organization does not withhold income taxes and does not pay Social Security/Medicare taxes on the wages. The organization will provide the independent contractor with a 1099 form if \$600 or more was paid to him/her during the year. The independent contractor reports this income on Schedule C and deducts business expenses related to this income. These expenses must be "ordinary and necessary" and clearly documented.

The independent contractor also files Schedule SE, which calculates Social Security/Medicare taxes that must be paid with the tax return (cur-

rently 15.3 percent on the net profit of the business, although half is taken as a deduction on Form 1040).<sup>2</sup> Because the employer does not withhold taxes, the independent contractor makes quarterly estimated tax payments for federal/state taxes (the IRS prefers its money up front!). (Note: most home studio owners are sole proprietors and follow these same tax procedures.)

Additionally, an independent contractor:

- is in business for him/herself and is free to offer services to other organizations
- invests in equipment and supplies and is responsible for his/her expenses

- assumes the risk of profit or loss in providing the service
- may negotiate fees and submits an invoice for payment
- establishes a schedule to provide the desired result
- usually possesses a specialized skill
- is free to hire someone else to actually perform the service (sub-contractor)
- provides own benefits

### Which Is Better?

In terms of the financial bottom line, it is impossible to say whether employee or independent contractor is the best option. Every situation is different. Being an employee for an organization



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might mean a lower income per lesson, but the employer provides teaching space and instrument, and perhaps insurance benefits. An independent contractor might be able to charge significantly more per lesson but will be responsible for expenses. Certain expenses, such as health insurance or owning a home, can be extremely high.

It is important to understand the financial implications of each teaching situation. For the most accurate information and advice, please consult a tax advisor.

Equally important is to consider what level of control you are comfortable with and the amount of free-

dom you personally require. While an employer has the *right* to dictate how work will be done, some employers may provide a high degree of individual freedom. One employer might allow the teacher to interview prospective students and decide which to accept; another might assign students to the teacher based solely on schedule availability.

Before accepting a position, ask questions about pay rates, scheduling, policies, curriculum and expectations beyond teaching (such as assisting with recitals or attending meetings). Scrutinize the contract and its terms. Talk to other teachers—those who work for the organization and also

those who do not—to get a sense of the organization's professional image.

In our changing economy, new teaching formats are emerging. A savvy teacher will explore all options for the best fit. An entrepreneurial teacher will create a new format to fit the next generation.

#### Notes

1. Social security tax rates of 7.65 percent/15.3 percent are assessed on the first \$113,700 of income, and 1.45 percent/2.90 percent on amounts earned above this base.
2. Ibid.

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