

# How to Calculate Your Hourly Rate as an Online Contractor

## 1. Start with your target annual salary



## 2. Calculate new expenses and overhead

You are technically self-employed which means you'll have new expenses, tax obligations, and additional overhead that your employer would have done for you before.

The best part of being a contractor is that you still have long time work but you are just paid more overall because you have these types of things to pay for yourself.

### COSTS OF DOING BUSINESS



OFFICE SPACE / CO-WORKING MEMBERSHIP  
\$4,200/YR  
WeWork



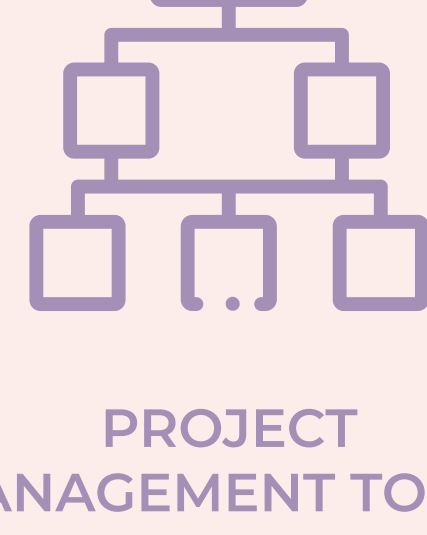
WEB HOSTING  
\$360/YR  
WP Engine



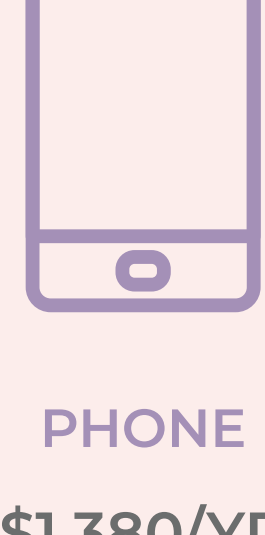
INTERNET  
\$1,020/YR  
Get the fastest connection you can



INVOICING & ACCOUNTING SOFTWARE  
\$360/YR  
FreshBooks



PROJECT MANAGEMENT TOOLS  
\$45/YR  
TrelloGold



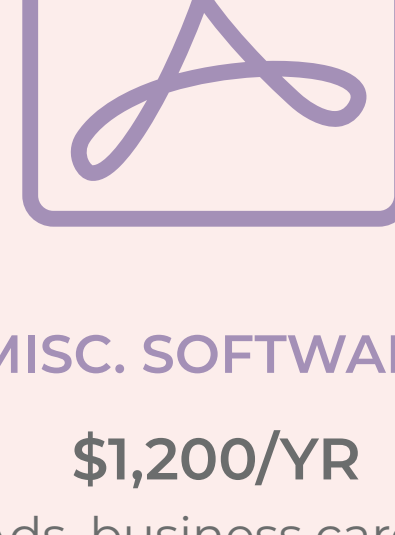
PHONE  
\$1,380/YR  
iPhone



NEW LAPTOP EVERY 2 YEARS  
\$600/YR  
MacBook Air



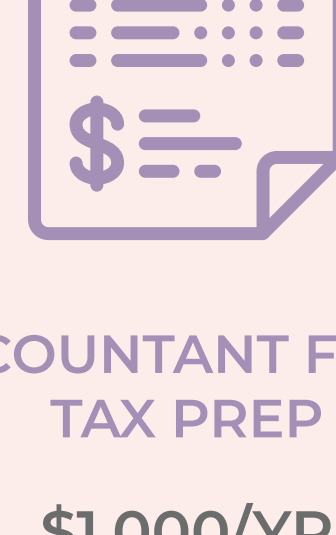
PROMOTION / MARKETING  
\$1,200/YR  
Ads, business cards, flyers, etc.



MISC. SOFTWARE  
\$1,200/YR  
Ads, business cards, flyers, etc.



ALLOWANCE FOR UNCOLLECTED PAYMENTS  
\$1,500/YR  
2% of revenue



ACCOUNTANT FEES / TAX PREP  
\$1,000/YR  
You'll want professional help with paying quarterly taxes on income tax, utilizing write-offs, and cutting expenses

### COSTS OF LIVING

You can count on a 7.65% increase on top of the income tax you were accustomed to, which covers your full contributions to Social Security and Medicare. When you're working full-time, your employer covers half of the Employment Tax (15.3% in total). Now that you are your own employer, you're responsible for covering the other 7.65% as well. Thankfully, the employer portion of this tax is deductible.



HEALTHCARE COSTS  
\$1,200/YR  
Ads, business cards, flyers, etc.



SELF-EMPLOYMENT TAX  
\$5,700/YR

### NEW EXPENSES AS AN ONLINE CONTRACTOR



## 3. Arrive at your new adjusted annual salary

Adjust according to the maths you did above:

Target Salary: ..... **\$45,000**

+ New Expenses & Overhead: ..... **\$22,513**

= Adjusted Annual Salary **\$67,513**

## 4. Determine how many hours you want to work per year

You're probably freelancing because you want:

- ✓ Flexible schedule
- ✓ Travel freedom
- ✓ Time with kids or family
- ✓ Able to work wherever a spouses career takes them



**Working hours per year = 2,080**

(52 weeks x 5 days x 8 hours)

3 weeks vacation = 120 hours (15 days x 8 hours)

7 US holidays = 56 hours (7 days x 8 hours)

5 sick days = 40 hours (5 days x 8 hours)

**Total hours off per year = 216**

**2,080 - 216 = 1,864**

Now, this assumes that you're going to be billing a client for ALL hours of work you do each week. However, as an online contractor, you'll need to spend time each week signing new clients, making phone calls, emailing, marketing, performing administrative tasks, and more.

**Allow for 25% of your time to be spent on non-billable activities.**

**1,864 hours x 75% =**

**1,398 billable hours per year**

## 5. Divide adjusted annual salary by billable hours per year

Adjusted Annual Salary: ..... **\$67,513**

/ Billable Hours per Year: ..... **1,398**

= **\$48,29** per hour rounded up to:

**\$50 per hour!**

## Now calculate your own hourly rate.

Adjusted Annual Salary: \$ \_\_\_\_\_

/ Billable Hours per Year: \_\_\_\_\_

= \$ \_\_\_\_\_ per hour

