Private Practice Income: Requirements and Projections

This worksheet is designed to help you assess your personal financial situation and your projected income from your practice in the coming year. Once you have created your estimates, there is a strategy for stabilizing your monthly income from the practice. As you work through the form, make your best estimates of the figures requested. Avoid being optimistic about revenues or downplaying the amount you spend. Your goal is to create a very conservative prediction.

Step One: Calculate your monthly non-practice income. Enter your monthly income from all sources *except* for your private practice.

- Make it monthly. Some revenue may appear only once a year. Divide by 12 to get the average monthly amount.
- Avoid overestimating. Do not expect that stock market income will match the previous year, do not count any income that is expected but not yet certain (e.g., anticipated raises), and do not count any jobs that you have not yet secured (e.g., a university course you have applied to teach but have yet to hear about).
- Only include continuing income. You are estimating your income once you start your practice. So if you will give up a part-time position once you open your practice, do not include it in your estimate.
- In or out? Some income streams (such as speaker's fees) might or might not be considered part of your practice. If you will deposit the money in your personal account, then count it here. If it will go into your practice account, don't include it.

Amount **Source**

_____________ Part-time salaried position: ____

_____________ Part-time salaried position: ____

_____________ Speaker and workshop fees

_____________ Teaching revenue

_____________ Publisher's royalties

_____________ Investment and interest income

_____________ Family trusts

_____________ Spouse's income (if you have calculated expenses above for both of you)

_____________ Other source of income: ____

_____________ Other source of income: ____

Line A: ____________ Total of all monthly non-practice income

Step Two: Calculate your personal expenses. Enter all of your non-practice expenses. Where these vary by month, either estimate your average monthly bill or total your bills for the past year and divide by 12.

Do not include expenses that will be paid directly from your practice account before issuing your personal salary: Office rent and furnishings, assistant salary, conference travel expenses, practice insurance, license fees, and so on.

To ensure you include everything, take a look at recent bank account and credit card statements for items you may have forgotten.

Home Expenses

______________ Mortgage payment (on your home, not your office)

______________ Second property payment

______________ Rent on home

______________ Condominium/strata fees or ____

______________ Property/municipal taxes

______________ Home insurance

______________ Home maintenance / repair

______________ Other bills: ____

______________ Other bills: ____

Telecoms / Electronics (for home, not your practice)

______________ Land line phone

______________ Mobile phone

______________ Cable television

______________ Broadband Internet

______________ Other bills: ____

Utilities (for home, not your practice)

______________ Electricity

______________ Water / sewer

______________ Natural gas

______________ Heating

______________ Trash removal

______________ Other bills: ____

Services (estimate average cost per month)

______________ Gym / health club / or ____

______________ Gardening / snow removal / other home exterior: _________________________

______________ Cleaners / painters / other home interior: ________________________________

______________ Medical / dental insurance payments

______________ Dental (if not covered by insurance plan)

_______________ Medical-related (if not covered by insurance plan)

_______________ Allied health (chiropractic/massage/etc): ___________________________________

_______________ Appearance services (hair, etc): ____

_______________ Accounting / financial services (exclude accountant bills for practice)

_______________ Other bills: ____

_______________ Other bills: ____

Vehicles

_______________ Car payment

_______________ Car maintenance (pessimistic total for a year, divide by 12)

_______________ Fuel (cost per fillup x fillups per month)

_______________ Vehicle insurance

_______________ Bus/transit/toll related bills

_______________ Other bills: ____

_______________ Other bills: ____

Other purchases

_______________ Clothing (self and family)

_______________ Groceries

_______________ Restaurants and take-out

_______________ Entertainment (movies, plays, concerts)

_______________ Home furnishings (furniture, electronics)

_______________ Household products (cleaners, toiletries, etc)

_______________ Electronics hardware (phone, iPad, computer, television, network)

_______________ Gifts (birthdays, holidays, anniversaries)

_______________ Charity giving

_______________ Travel (hotels, airfare, transportation, meals, purchases, ski lifts, etc)

_______________ Other bills: ____

_______________ Other bills: ____

_______________ Other bills: ____

_______________ Plus miscellaneous (minimum $100 per month)

Dependents

______________ Payments to spouse

______________ Child support / alimony

______________ Support payments for family elders

______________ School bills

______________ Babysitting, daycare

______________ Other bills related to dependents: ____

______________ Other bills related to dependents: ____

Taxes / Liabilities

______________ Income tax (use previous year as guide, or projection for practice)

______________ Student Loans (monthly payments)

______________ Other loans not covered elsewhere: ______________________________________

______________ Other taxes not covered elsewhere: ______________________________________

Investments (monthly payments into these funds)

______________ Retirement savings (401(k), RRSP, etc)

______________ Education Savings Funds

______________ Other investment: ____

______________ Other investment: ____

Line B: _____________ Total of all monthly expenses

Step Three: How much does your practice have to earn? Now look back at your personal income and expenses.

Line C: _____________ Line A (non-practice revenue) minus Line B (expenses)

This is the amount of money from your non-practice income that is left over once you pay your personal expenses.

If Line C is positive, congratulations! You already earn more than enough to cover your existing spending. All of your private practice income (after expenses) will be a bonus. You will be able to save more, and you may be able to make additional purchases. You should not take on any firm commitments (such as a second home) until you are certain that your practice income will cover the additional expenses.

If Line C is negative, your private practice will have to earn at least this amount if you want to maintain your existing spending. You will not be able to increase your saving or spending until you are reliably making more each month than the amount in Line C.

Step Four: Estimate your practice income. If you already have a practice, use your total revenue for the past year and divide by 12. Do not assume that you will make more this year than last.

Line D: _______ Past year's revenue (_______________) divided by 12.

OR: If you started your practice in the past year, then ignore the revenue from your first two months. These months probably aren't your best estimate of your income. Calculate the revenue from the third month of your practice to the present, then divide by the number of months you are counting.

Line D: _______ Revenue, 3rd month to present (_____________________) / _____ months.

OR: If you have not yet started a practice, estimate the monthly revenue that you are almost certain to achieve. One way of doing this is to multiply your hourly client fee by the number of client hours you expect to have each month. Do not be optimistic. Consider reducing this figure by a third, just to be safe (multiply by .67).

Line D: _______ Estimated monthly revenue (________) x 0.67.

Step Five: Calculate your practice expenses. If you already have a practice, use your actual expenses from the past year. Adjust for changes where necessary (for example, if you hired an assistant or moved to more expensive office space).

If you are opening a new practice, make your best estimate based on what you know of these costs. If you don't know the costs, take some time to find out before completing the form.

_____________ Mortgage or lease payment (including maintenance fees and taxes)

_____________ Utilities (heat, electricity, water) if not included in lease

_____________ Business and other licenses

_____________ Professional fees and licensure

_____________ Assistant's salary and benefits

_____________ Telephone

_____________ Cell (if paid for through practice revenue)

_____________ Internet connection service

_____________ Web hosting

_____________ Business travel expenses (e.g., to provide workshops)

_____________ Continuing professional education (workshop & conference fees)

_____________ Bank and credit card processing fees (often about 2% of revenues)

_____________ Other expenses: ____

_____________ Other expenses: ____

Line E: ____________ Total monthly practice expenses

If you are starting your practice and opening a new space, consider spreading your startup costs over the first year. These include renovations of the suite (those not reimbursed by your landlord), carpets, furniture, computers, test scoring programs, and so on. If you have already paid for these costs, enter $0.

Line F: _____________ Total of all one-time startup costs

Line G: _____________ Line F divided by 12: Startup costs by month

Line H: _____________ Line G plus Line E: Ongoing plus startup costs.

Step Six: Calculate your net practice revenue. Now calculate the amount of money you expect your practice to make each month, less expenses.

Line I: _____________ Line D minus Line H: Monthly Net Revenue.

If you will be paying off your startup costs this year, then next year your projected net revenue may be higher by the amount in Line G.

Step Seven: Calculate your monthly pay. How much should you pay yourself from the practice? One option is to issue yourself a check for the amount you earn less your expenses each month. There are two disadvantages to this system:

1. You will have to calculate your expenses every month before you can issue your paycheck.
2. Your income will rise and fall every month. Some months you will get nothing, and you may even have to write a check to the business rather than the other way round!

To overcome this problem, consider establishing a regular salary for yourself. Pay this same amount to yourself each month regardless of what the practice earned. There are two considerations here:

1. Your pay must not exceed the amount in Line I. Initially it should be less than Line I by as much as you can make it.
2. You must still monitor your clinic's revenues and expenses. If revenues fall or expenses rise, you must be prepared to reduce your monthly pay.

Based on these calculations, what seems like a very conservative amount that you could pay yourself each month?

Line J: _____________ Your pay. This must be *less* than Line I.

In order to maintain your existing level of spending, your pay must be greater than any negative amount in Line C. So if Line C is -$550, your pay must be $550 or more. If this is not possible without paying yourself more than in Line I, then you will have to reduce your personal spending by the difference until your practice becomes more profitable.

Step Eight: Pay yourself quarterly bonuses

When you issue your paycheck there will be money left over in your private practice bank account. If you have been properly conservative in your revenue estimates, this amount will grow each month.

You should always keep a good-sized "rainy day fund" in your private practice account for the occasional unexpected expense. You may get the flu and be unable to work for two weeks. Your computer may have to be replaced. Referrals may suddenly dry up.

How much should your reserve be? It's up to you. You want to have enough money to weather these challenges without having to worry. For a single-person full-time practice, it should probably be at least $10,000.

What would you like your reserve fund to be? $______________

You may not have this amount in your private practice account just yet. If not, then consider cutting back your monthly pay until you do.

Sooner or later the amount left over in your private practice account will routinely exceed this amount. At the end of every business quarter (perhaps April 1, July 1, October 1, January 1), look at your reserve fund and consider issuing yourself a bonus. If your reserve is $10,000 and the account has $11,732 after paying your monthly salary, then you might give yourself a $1000 bonus. As always, be conservative.

Once a year, look back at what has happened. If you have been able to issue yourself a bonus every quarter and your reserve fund has still grown, then consider raising your monthly pay. Again, be conservative. If you underestimate how much you can pay yourself, you can still issue bonuses.

Note: If you incorporate (and even if you don't), there may be tax implications in your jurisdiction for adopting a salary plus bonus system. Check this out with your accountant or tax lawyer.