

FREELANCE EDITORS

Get ahead but **cover** your behind

BY TEDD CAMPBELL

If only freelance editing were all about editing. If only. Freelance editors are, in fact, small-business people who strive to earn a living from their craft using whatever tools they can afford. Popular tools of the editing trade include blood-red pens, original-sin computers, style guides disguised as Russian novels, and strong prescription glasses. Freelance editors also have access to a parallel (though more pedestrian) array of business tools, which include liability insurance and the corporate business structure.

TO INCORPORATE OR NOT TO INCORPORATE?

The advantages of incorporating your business

Many freelance editors base their decision to incorporate on a single factor: income tax. Indeed, if you have a sole proprietorship with income in excess of a certain threshold, you can reduce your income tax by incorporating your business and hiring a skilful accountant. Your accountant will minimize your taxes by juggling variables like business income-tax rates, personal income-tax rates, annual salary drawn from the business, corporate dividends, and loan arrangements between you and your corporation.

Some freelance editors use this corporate business structure to “smooth out” their income from year to year. By drawing a steady annual salary, these editors leave money in their businesses during the good years so that it will be there during the lean years. (Goodbye feast and famine, hello regular meals.)

Limited liability is another advantage to incorporating: you’re only on the hook for what you’ve invested in the company. But don’t get the wrong idea. This is not a get-out-of-jail-free card if you’re unable to pay your bills. Although your corporation is a distinct legal entity, you are still liable for any loans that you have personally guaranteed. As a freelance editor, you *are* your corporation, and your bank will almost certainly require your personal guarantee for any loan it grants you. On the bright side, freelance editing does not require huge capital investment, so any loans will likely be minimal or non-existent. On the not-so-bright side, you may be personally liable for income tax owed by your corporation; however, for the freelance editor who is merely exchanging a sole proprietorship for a corporation, this point is probably moot.

Although freelance editors tend to build reputations and not brands, some level of protection for a business name is nevertheless appealing. As sole proprietor of a small business, you may register your business name; but the act of registration does not grant you any form of legal right to the name. As the head of a small incorporated business, on the other hand, you gain the strongest possible protection for your business name, short of registering it as a trademark.

The disadvantages of incorporating your business

The main disadvantage to incorporating is that—oh no!—it costs money. Whether you choose

to incorporate at the federal or provincial level, you will be charged an administrative fee. (Render unto Caesar—again.) Furthermore, your corporation must be registered and must have a charter, a legal document describing your business structure and activities.

You can either hire a lawyer to draft your charter or do it yourself. If you’re tempted to take the DIY approach, be sure to get a reality check from an incorporated colleague. Even if you are capable of producing a credible charter for your company, consider the opportunity cost of doing so—sometimes it pays to hire a professional.

Hiring a shrewd accountant is another significant, but necessary, expense. Alas, incorporating is not cheap, but if your income is high enough, your tax savings will more than offset the cost.

If you’re thinking about incorporating your business, you’d be wise to learn as much as possible before taking the plunge. A good place to start is the Canada Revenue Agency website (www.cra-arc.gc.ca), where you’ll find forms, guidelines, FAQs, and tips. Local business development offices, such as Ontario’s Small Business Enterprise Centres (www.sbe.gov.on.ca/ontcan/sbe), are also excellent resources for business information.

WHEN SAYING “OOPS, SORRY” ISN’T ENOUGH

At some point in your freelance editing career—perhaps when you start winning complex, big budget assignments, or when you’re regularly meeting clients in your home office—you may want to consider purchasing liability insurance: Commercial General Liability, Professional Liability, or some combination of the two.

Commercial General Liability insurance

Commercial General Liability (CGL) insurance is designed to cover claims of damage and injury resulting from your business activities. Although optional for a home-based business, CGL is mandatory for any business that rents commercial space (e.g.,

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an office, a booth at a tradeshow). Freelance editors can rely on CGL insurance to cover:

- **Bodily injury and property damage liability (aka “Slip and Fall” insurance).** If a client is injured on your premises and decides to sue you, you are protected up to the maximum amount of the policy. Ditto if you accidentally damage a piece of equipment belonging to your client.
- **Medical expenses.** If a client is injured on your premises, the client’s medical expenses are covered. This coverage is designed to prevent a costly lawsuit.
- **Tenants’ legal liability.** If you accidentally damage a building in which you’re renting space, you’re covered for the cost of repairing the damage.

Conspicuously absent from this list is libel and slander coverage. Unlike most businesses, media companies—which is how the insurance industry classifies freelance editing businesses—do not receive this coverage under conventional CGL insurance. Instead, media companies must rely on Professional Liability insurance for protection.

Professional Liability insurance

Professional Liability insurance (aka “Errors and Omissions” insurance or “E&O”) protects service businesses

against lawsuits arising from alleged flaws in their work. A typical E&O policy will cover the cost of investigating allegations and mounting a legal defence.

E&O policies vary in detail and structure and are tailored to fit each insured business. A policy may include a per-occurrence limit—the maximum coverage amount for a single claim—and an aggregate limit that caps the total amount payable on the policy. For example, a policy with a one-million dollar per-occurrence limit and a five-million dollar aggregate limit covers up to five one-million dollar claims.

The two brokers I spoke with when researching this article—both E&O specialists from the Toronto area—said that E&O is more expensive than CGL. But they were unwilling to provide specific cost estimates because of the complicated and lengthy evaluation process. However, they did give me a ballpark monthly rate: low thousands, minimum. (Yes, that’s in dollars!)

The brokers also told me that insurance underwriters determine E&O rates based on an applicant’s detailed business information, including:

- Professional services offered
- Clients (industry, size, location)
- Revenues
- Insurance history
- Work history
- Professional associations
- Text of business contracts.

As a small-business entrepreneur, you’re naturally eager to get ahead. But remember: sometimes you also need to cover your behind. With or without insurance coverage, you should always strive to minimize risk. Use clearly worded contracts such as EAC’s *Standard Freelance Editorial Agreement*, and ask your clients to sign off on finished work, assigning responsibility for content to the copyright holder. But should you buy liability insurance? Should you incorporate? Should you use blood-red pens? It’s up to you. It’s your business. 

Writers’ Union saga

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limits set by the publisher. No one present had any sympathy for the Book Editing Committee’s aggressive stance; the focus was on tactics. As one member said, “It is important that we not be pushed into being a pressure group against the publishers. On the other hand, we do not want to be thought of as simply an arm of the publishers.”

The group moved: “That FEAC does not feel that it would be beneficial to writers, editors, or publishers to participate in The Writers’ Union editor-writer meetings until publishers are represented. FEAC should inform The Writers’ Union of this in writing, and should not send an observer to the next meeting unless publishers are also represented.”

By the next members’ meeting, we appeared to have won a quick victory. Maggie read the letter she had written to TWUC; it included the text of the previous meeting’s motion “plus an explanation of our reasoning in insisting that publishers ... be included on any such committee before FEAC will participate.”

No FEAC representative had attended the committee’s meeting of October 17, 1979. Maggie had, however, heard an informal account of its proceedings. Her letter had been read at what proved to be a very short meeting. “The participants appeared to want FEAC’s participation very badly and decided to accept our position. Publishers are being asked to nominate representatives to the committee,” she reported.

No such representatives materialized over the next few weeks, although a few FEAC people did interact with the committee, whose members were said to emphasize blood-on-the-publisher’s-floor scenarios between authors and editors. By March 17, 1980, a member of our Industry Liaison Committee told a members’ meeting that the group was not productive. He recommended that FEAC withdraw its participation, and the meeting did so by a motion.

The Industry Liaison Committee and some other individual members did, however, maintain contact with the TWUC Book Editing Committee, which continued to work on a booklet addressed to authors new to the publishing process. Organizations that might help with funding, circulating, and producing the book were also being lined up.

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