FUSION
HEALTH & SAFETY

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Charging for your time

A charge-out rate is the amount you charge your client or customer for an hour of your time or labour. This is different from the hourly rate paid to an employee by an employer.

Think it through carefully

As a sole trader or small business owner, you can choose your own charge-out rate – but don't be tempted to pick a number out of thin air. An accurate charge-out rate is more than simply what you'd like to earn. It should take into account how much you plan to work, what it costs you to make your product or perform your service, and how much extra you'll need to earn for your business to grow.

Our guide will take you through the steps you need to consider when calculating your charge-out rate. It's important to think about each step and go through it properly, because the better your calculations are, the more accurate your charge-out rate will be.

Choose your target income

A good starting point is what you'd like to earn. Think about the standard of living you'd like, what you could earn elsewhere, or what gains you might make from investment. For practical purposes, we'll assume you're setting up as a self-employed Plumber and you're targeting an annual salary of $80,000 (this is just an example, the same principles apply whatever your business may be).

Make sure you include the appropriate ACC levy for your line of work. To get an estimate of the ACC levy for your business, talk to your accountant or check the ACC website.

For this example, let's assume the levy is $1,500 per year. If we add that to our target $80,000 income, that gives us $81,500.

Work out your chargeable hours

The next step is to consider how many hours you can work each year. If you worked 40 hours per week, 52 weeks a year, you'd work 2,080 hours. But since you're not a robot, you'll need to allow for things like holidays, breaks, and sick days – plus all the hours you'll spend on things you can't charge for, like administration, meetings, and travelling.

As the table shows, a more realistic number of hours you can invoice clients for might be 1,350 hours.

Description	**Hours**
Total working hours in the year	2,080
Deduct 4 weeks holiday	-160
Deduct 2 weeks statutory holidays	-80
Deduct 1 week sick days	-40
Deduct non-chargeable hours (25% of time at work)	-450
Total chargeable hours	**1,350**

Our team of experts from SiteWise, Impac Prequal, and Totika, will provide free advice to help you achieve any health and safety prequal accreditation. Our process is straightforward simple and easy to understand.

You can tailor this calculation to your own situation, but don't be tempted to skip on holidays, as that's a sure-fire way to burn yourself out. Also, don't underestimate the number of non-chargeable hours you'll need to invest in admin, marketing, and all the other aspects of running your business.

Divide your target income by your chargeable hours

Now that you know how many hours you can realistically charge out for, you can work out what rate you'll need to charge to achieve your target income. Dividing your target income of $81,500 by 1,350 chargeable hours gives roughly $61 an hour.

$81,500 (target income) ÷ 1,350 (chargeable hours) = $61

We now have an hourly rate – but that's only covering your target income. You'll need to factor in your overheads, too.

Adjust your rate to include overheads

Overheads are your fixed expenses such as power, rent, advertising, marketing, professional insurance, and repairs (etc). You should have a good idea of what yours are from your business plan and cash flow forecast. We'll assume a figure of $50,000 for the year.

$50,000 divided by your 1,350 hours means you need to add another $37 to your income charge – bringing your new hourly rate up to $98 per hour.

$50,000 (overheads) ÷ 1,350 (chargeable hours) = $37 + $61 (hourly rate) = $98

Add in a profit margin

If you want your business to grow, you'll need to factor in a profit margin. For this example, let's assume a profit margin of 15%. Add this to your new hourly rate.

15 ÷ 100 (margin) x $98 (hourly rate) = $14.70 + $98 = $112.70

If we assume a profit margin of 15%, your final charge-out rate should be (rounded up) $113 per hour.

Compare your rate with the market

What you need to do now is work out how your rate compares to others in your industry, and whether it's competitive or not.

If you're lower than the average market rates for your industry, you might be under-selling yourself. You have an opportunity here. You can look at increasing your charge-out rate and improving your income. Or you could decide to charge less than your competitors to attract some of their customers.

If you're higher than the average, you may need to review your figures. Are they accurate and realistic? Are you aiming too high with your target income? Alternatively, you could look at emphasising the value-added components that justify a higher rate, such as guarantees, superior quality, and stellar customer experience.