

Webinar Title: The Financial State of Private Practice for Psychologists

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Moderator: Hello and welcome to today's webinar, The Financial State of Private Practice for Psychologists. This topical webinar is paid for by Heard, an accounting platform designed specifically for psychologist entrepreneurs, offering easy-to-use software and expert support to simplify financial management. Some important points before we get started. Forrest Perry and Michael Fulwiler, the presenters for today's webinar, have working relationships with Heard. As such, they have both a financial and an intellectual interest in the webinar content.

The purpose of this presentation is to provide a balanced view on the financial state of private practice for psychologists. APA does not endorse any products or services. The content was created by Heard and does not reflect the views of APA or its editorial staff. Email advertising at apa.org to learn more. [sound cut] Next, this program does not offer CE. However, we will email everyone watching live today a certificate of attendance. Certificates will only be issued to those who watch for a minimum of 45 minutes. A recording of this presentation will be emailed to everyone in two weeks' time. The recording will include the presentation slides. During our time together, you will be on mute.

You can communicate with us using the Q&A box located on your webinar screen. The Q&A is enabled for attendee interaction with submitted questions. Attendees can view all submitted questions and upvote those they find important. This helps the presenters identify questions that many attendees want answered. A link to the presentation slides will be posted in the chat box of your webinar screen. If you miss them, don't worry. We'll email them to you with the recording.

Now, let me introduce our presenters. First, Forrest Perry. Forrest, a former CPA, is the current partnership lead at Heard. He has consulted with thousands of therapists and helped build teams and processes for tax accounting, customer support, and sales. Michael Fulwiler. Michael is the director of brand at Heard and the host of the Heard Business School podcast. He is also the founder of Fulwiler Media and creator of Therapy Marketer. Welcome, Forrest and Michael.

Michael Fulwiler: Thank you. I think that's my cue to take over here. It works amazing. Thank you so much to the APA for having us. Thank you for the folks who are here. We're excited to, one, be here and also just share this information with you today. We're here to talk about the financial state of private practice for psychologists. For the last three years, we've put out a report on the financial state of private practice. This year, we surveyed 3,000 therapists nationwide. What we haven't done is we haven't looked at psychologists specifically. For this presentation, that's exactly what we did.

We're going to share the findings from over 300 psychologists who took our survey about the state of their practice. Just a quick disclaimer here on the methodology of how we collected these responses. We sent a survey to our email list. We also shared it out on social media. We did provide an incentive to complete the survey. Anyone who completed the survey was entered into a drawing to win 1 of \$250

Amazon gift cards. This survey was run between January 16th and February 3rd of this year. Again, there was just under 3,300 total respondents.

On the next slide, we can look at the number of respondents specifically who were psychologists. We had almost 300 psychologists nationwide representing 42 states, including Washington, DC. You'll see the breakdown here. Probably not surprising. Most of our responses came from California, Washington, North Carolina, Virginia, and Oregon. Something that's interesting to me here, looking at this, I would expect New York to have a higher representation. When we look at our own data, and you know of therapists nationwide, we tend to see a lot more representation of New York. Interesting there in terms of the number of responses from various states.

We asked, "How long have you been a psychologist and how long have you been licensed?" This is interesting. 30%, so 1 in 3 psychologists who responded to our survey had been a psychologist for less than 5 years. When we're looking at these responses over the next hour, it's important to keep that in mind. These tend to be folks who are newer to the field. This also could suggest that there are more psychologists who are entering the field, which is great and encouraging to see. With that, I will turn it over to Forrest to talk about income.

Forrest Perry: Thank you, Mike. We have a series of these slides and sections, starting off with income. Just going to give a quick little overview of how we're ideally going to approach each one of these slides. It's important to know that we'll be sharing out these after, so you can dive into the details, review it further on your own time. Our goal here today is not just read off the slide and share this data. It's additionally, one, to learn how to take this data and then optimize it for your private practice, whether it's cost-cutting measures, learning about new accounting and tax concepts, or just general quick tips.

We also had almost 150 pre-submitted questions. I was excited to review all those and all great questions with a variety of different facets around what we'll be presenting today. We did try to incorporate some of those questions into our presentation today that we'll be going over. Then, as you heard earlier, we will have that 10 minutes of Q&A. Apologies in advance for those that we don't get to address, but hopefully, you'll still value the other ones we're chatting about.

All right. Let's dive into this specific slide. I think it's important to explain what income is or what net profit is or net income. A variety of different terms here. One, profit and net income mean the exact same thing in the accounting world. How do you get there? You take the income that your private practice is generating, subtract that from the expenses to run and operate your private practice. Then, you have what's called your net income or net profit. Now, it's important to know that is what you are taxed on, is that net income or net profit.

As you'll see in the chart below, it is going up, which you'll see in these next few slides make sense as session rates are increasing, as well as inflation and expenses are increasing. It's really important at this time of the year or even ideally about a few months ago to set yourself a profit goal, which can be tied back of what do I think my income is going to be, my projected expenses to take last year's, for example, and then getting back down to that estimated profit number.

As I said, we'll talk through why we think this profit is increasing, but why it's so much higher maybe than other types of therapy practices out there is psychologists have your doctorate higher fees, higher session rates, which is great. Rewarding all that education and schooling. One thing we wanted to call out on the slide is around S corporations. We got quite a few questions around what's an S Corp, when to be an S Corp, how to be an S Corp. One of the biggest factors in determining if it's best to become an S Corp is profit.

Here at Heard, we've determined that amount to be about \$100,000. Now, it can vary state by state, person to person, household to household, but that is one of the biggest inputs. If you are one of those psychologists above that \$100,000 profit mark, I highly recommend chatting with your accountant or CPA about S corporations. Mike and I do full webinars on S Corp, so I'm not going to dive into all the details, but that's a good indicator. If you're getting close to that \$100,000 profit or well over that, definitely chat with your CPA about an S Corp and don't just become one without chatting with one, because we see time and time again folks become an S Corp and then determine they're actually paying more in taxes.

Getting that initial savings assessment is really important. All right, I can go to the next slide here. Okay, so as I said, I was going to talk about how we're getting that higher profit. One of those is increased session fees. Again, what we're seeing here is psychologists have higher fees than all other therapists. Now, I think a big thing to consider when we're talking about that goal, if I have that income and profit goal, how do you get there? Some easy math is tying back to all right, how many sessions am I going to do a week? Don't stop there. From the sessions, you want to break it down by session type.

You see the variance between the average reimbursement rate from insurance to private pay or individual session fee, about \$60, \$70. For every client, you're making more without insurance. Now, does that mean you shouldn't stop taking insurance? Absolutely not. All I'm saying is when you come to prepare these goals with your income and your profit, you want to consider both, okay, on average how many private pay clients am I seeing a week? Then on average how many clients am I seeing from insurance that week?

All right, Mike, go to the next slide here. Okay, so again, tying back to that increase in profit, are you raising fees? Surprisingly, less are actually raising their fees. Now I would ask you all, a therapist told me this a few weeks ago, around wearing two hats. A psychologist, you have your psychologist hat, and then you have your business owner hat. It's a really difficult role to wear both of those hats with every decision. There are some of those decisions you're going to want to have that business owner hat on.

Look at your expenses from last year to this year. Realistically, the majority of those expenses went up. Things got more expensive for everyone across the country, across the world. It's important to also consider, hey, do I need to hit those goals of mine, and account for the increase of my expenses to also increase my fees? I was chatting with Mike last week about, hey, what is best guidance to give psychologists when they're raising fees? I know here at Heard, we've done one price increase three years ago, and it was tough, tumultuous. A lot of folks up in arms, why are you

raising it, how are you raising it? I understand, of also raising fees for your patient isn't easy.

Some of them might not even be able to afford it, which is a whole nother case. The biggest thing is timing. Be sure to give folks a heads-up if you plan to raise those fees. Then have a preconceived plan of if someone says no, how are you going to handle that? Hey, I'm willing to offer maybe more of a sliding scale fee. I have some great referrals that I'm going to refer them out to. The best time is usually the beginning of the year to normally raise these fees as it's like, hey, starting the new year. Knowing we're already three months in, maybe it's start of the quarter.

June 1st, or excuse me, July 1st, as that's the first half of the year through, starting Q3. Do some of your own assessment and analysis to hit those goals and to account for your increase of then expenses. Are you needing to raise your fees? Then make sure you have a plan according to it and how you're going to do that.

Michael: Another approach here could be to keep existing clients at their current fee, but all new clients, then you raise the fee for those folks. Assuming that those clients who are at that lower fee at some point are going to graduate out.

Forrest: Insurance. This was a hot topic with the questions, so many, so many out there. I think the most interesting thing for myself when I was reviewing this data is on the right of how do you bill insurance? By far, the vast majority are using companies like Alma, Headway, Grow, Rula, et cetera, et cetera, et cetera. There's a lot of questions about using these types of services out there. Before I dive into that, though, I just want to continue that story of those goal setting.

Like we said, if you're accepting insurance, ensure for each insurance provider, if those reimbursement rates are different by chance, calculate that back into your model of getting to your goal of income or profit. One of the questions was, do mental health companies like Headway and Alma seem like good long-term financial choices for private practices? There was a phenomenal thread on Reddit that Mike shared with our team a few weeks ago around this exact question, and it was really interesting. I encourage you all, we can maybe send it as a follow-up or something like that, but lots of different pros and cons, lots of different perspectives.

I think that's the important thing to know when evaluating services like this, and same with accounting and taxes, is you're going to hear something different from a lot of different folks. By no means do we have a specific stance on this, but what we've learned is Headway, Grow, Alma can be great resources as you start your practice to immediately and rapidly start accepting insurance to help add clients and start boosting your income and boosting your profit. As you saw on a few slides earlier, there's a huge variance between what you're collecting through private pay insurance.

Maybe starting to wean off as you grow your business and getting more and more private pay clients or creating more space for them specifically. Then there's obviously the pros and cons of, should I get credentialed and paneled on my own or use Headway, Grow, and Alma? That really ties back to a concept that I would just call time value of money. How much time of yours or money is it going to take to pay someone a service to get you credentialed? When I think about how much effort I'm

going to put in there, would I end up actually just seeing more patients and clients through Alma and Headway already? Also from the reimbursement rates.

I know a lot of those organizations flaunt that they have some of the highest rates, totally varies, I know psychologist to psychologist, but something to keep in mind, absolutely. I know there's no easy ways to navigate the lovely world of insurance. Sliding scale. This was awesome to see. I think you can see that psychologists by far are providing much more sliding scale services. Kudos to all you out there who are doing that, exploring it. I know it goes a long way for your patients. The thing, again, to think back, and this is probably the last time I mentioned, was modeling this out.

If you have folks on sliding scale, maybe you're seeing two a week, and the other half are insurance. The other half are private pay. Include that all back in there so that you can determine where that profit income goals will land. Multiple income streams. We see a lot of this here at Heard in terms of money coming into their bank account, our bookkeeping begins. We see all different types of income, which is awesome to see. Because at the end of the day, truly are entrepreneurs when you're in private practice. Oh, I just lost my light. There we go. I'm glad it worked.

It is great to think of other ways to have what's called a passive income, potentially. Maybe it's through courses. Maybe it's through group sessions that you're running. Psychology testing, teaching, supervision. There's so many of these other avenues that you can explore to have additional streams of income or revenue. I was amazed to see that over half the folks are getting from these non-therapy sources. Another great way to explore with your CPA or accountant if you're thinking about ideas and one thing to think about is if you are incorporated, so an LLC, PLLC, or professional corporation, make sure that this additional stream of income ties back to that purpose.

This is a bad example, but it's an extreme one of, let's say, you start being an Uber driver on the side. Not having the same purpose or scope of providing psychological services. That makes it so you can all funnel it in to one business or from your private practice.

Michael: Great. Thank you for sharing all of that, Forrest, and thank you also for the questions. If you have questions, drop them in the Q&A, we're going to save time at the end. How much are psychologists spending? When we look at expenses year over year, interesting trend here to note, expenses are up from 2024 to 2023. When we look at distribution, we see as well psychologists, so 2024 is the lighter blue here versus darker. Psychologists are in this 25 to 50,000 and 50,000 to 75,000. This range has gone up. Obvious reasons. Just inflation, just costs are up. However, the majority of psychologists continue to spend under \$50,000 a year, which is good.

To run a psychology practice, especially a virtual practice, it can be quite profitable just because there's low overhead costs. What that also means though for high-profit businesses is that taxes can be very high. We'll talk about taxes here in a minute, but just something to keep in mind. I would say if you're over \$50,000 in expenses, just knowing that most psychologists are under 50,000, it's an opportunity to take a look and see, are there expenses that maybe I can cut? I will say with expenses too, what we see at Heard is it's not typically large, big expenses.

It's smaller expenses that just add up. Those subscriptions, for example, just making sure that you're being diligent about reviewing your expenses on a monthly basis. [silence] We also asked how much folks are spending on financial services as well as marketing. If we start on the left here, we'll see that there's a distribution here of most psychologists spending less than \$1,000 a year, but upwards of 20% spending up to \$3,000 a year on accounting, bookkeeping, and tax services. Whereas marketing, for the most part, over 60% of psychologists are spending less than \$1,000 a year on marketing, which is great.

It's efficient. We also asked how psychologists and therapists are getting clients for their practice, and it tends to be a lot of word of mouth and networking, which is good. Again, you can have a successful practice without spending a lot of money and having a lot of expenses, but something just to, I think, talk to here is that accounting services, bookkeeping, tax services, they are an investment and they will save you time. It's a question for you as a business owner of, if I do this myself, how much time am I spending on a monthly basis? Forrest mentioned, just like the value of your time.

If you're spending even an hour a month doing your own bookkeeping, that's 12 hours a year, depending on how much you're charging per session. If you're charging \$200 a session, it's over \$2,000 a year of lost income potential. At that point, and we have this conversation with folks all the time, at that point it might make sense to work with a company like Heard instead of doing it yourself.

Then in terms of marketing, as I mentioned, word of mouth, networking continues to be huge. Online directories, Psychology Today. Although more recently, what I've been hearing from practitioners is that referrals from Psychology Today have been down, but in general, I think, referrals and networking are always a great marketing strategy. We also asked about student loans. This one I think is interesting. When we surveyed all therapists, so all 3,000 therapists who completed the survey, 68% reported having student loan debt yet psychologists, only 46% of psychologists reported having some student loan debt.

Yet for the psychologists who do have student loans, the vast majority have \$100,000 or more. With psychologists, it feels like it's very much all or nothing where I don't have any debt or I have like a ton of debt, which makes sense. Because, psychologists, you're getting your PhD, you're getting your PsyD, you have your doctorate. It's just more school, but interesting to see here that distribution. When we talk about paying down debt and paying down student loans, we have some really great resources on our website.

One of the strategies that I wanted to share is that when we talk about paying off debt, there's really two things to look at. One is, do you have a money making problems? Are you not making enough money to pay down your debt, or do you have a money management problem where you're not managing your money whilst you're not able to pay down debt? When we think about how do I get this down, I have \$100,000 of student loans. I'm never going to pay this off. Just starting there. Forrest also talked about having that income number for the year, and your student loans should be part of that, really. It's just a top line expense, so I know this year I'm going to have to spend X on student loans.

Forrest: Mike, I'm just going to jump in and make one small clarification. One thing though, when you are paying these student loans, you do not want to pay them from your business bank account or your account for your business. Oftentimes we get asked, "Are student loans a business expense?" Great question. Because without those student loans and going to school, you couldn't be the psychologist you are, but that is a personal tax deduction. There are tax breaks and deductions around it, but it's on the personal side. Avoid charging that to your business bank account or designated bank account for your business. Otherwise, it's going to start understating your profit, which has a snowball effect.

Michael: With that said, you are able to write off the interest on your student loans, or at least a percentage of that. Make sure that when you file your taxes at the end of the year, you're talking to your CPA or accountant about that. Then the other thing I just want to mention here about student loans, there's a lot of methodologies out there that you've probably heard. There's something called the snowball method of paying on credit card debt. Student loans, it's a little bit different. There's something called the avalanche. There's all these different kinds of financial methods and approaches.

What we tell folks is that there's no one right way. It really depends on you as the individual, what you're most motivated by, what you're really going to stick with. Something that I would also recommend here, we had just previously talked on the last slide about accounting and bookkeeping expenses. It may be worth working with a certified financial planner as well as CFP, which is a different license than a CPA. At Heard, we like to talk about building a money team for your business, and that could be a bookkeeper, a CPA, a CFP, maybe even a business coach or a money coach. Really supporting yourself with a support system of professionals.

We also asked about saving for retirement. This one was interesting. We asked first about your top financial priority for this year and 25%, so 1 in 4 psychologists said saving for retirement was their top financial priority for this year. Going back to that last slide, when we look at the 3,000 therapists who completed the survey, paying off debt was actually higher for therapists nationwide versus psychologists, who are more focused on saving for retirement, which makes sense because fewer psychologists are in debt, even though the ones who are, have more.

All that to say is saving for retirement is a focus, which is great, and 79%, so about 80% of psychologists reported that they're saving for retirement today, which is really great to see. This is another one here. I think where working with a financial advisor can be helpful to think about, what retirement plan makes the most sense for me, whether it's a Roth IRA or a SEP IRA or a 401(k). There's different retirement products that you can invest in. Another reframe here that I like to share with folks is when we think about retirement, we say saving for retirement, but we're not really saving for retirement. We're investing in a retirement plan or retirement account.

If we were truly saving, we would be putting money under a mattress. What we're doing is we're investing in a retirement plan that hopefully will grow over time. We think about this really as more of an investment strategy.

[pause 00:26:35]

Forrest: All right. Taxes and bookkeeping. We have a lot of fun information around this. This first one might not be as fun, but maybe reassuring as you likely all just finished filing your taxes. We got a lot of questions, pre-submitted around folks who are getting started in their business or practice or thinking about opening or have plans later this year. For those folks out there, I just want to give a little bit of insights into how maybe you're paying your taxes.

By default, when you open up your private practice, you're considered a solo. I just totally drew a blank there.

Michael: Sole proprietor.

Forrest: Sole proprietor. Thank you. I kept wanting to say sole entrepreneur, sole proprietor. That's your default. From there as a sole proprietor, which many folks will continue to operate as that, the next step up is often an LLC or PLLC. What's the difference between the two? Really just a P in front of the front, some states bar licensed individuals, such as CPAs or psychologists, et cetera, et cetera, to have an LLC. They just stood up a different type of legal entity called a PLLC. Why do we see psychologists move from that sole proprietorship to that LLC or PLLC is usually two main reasons.

One is they want the liability protection. As a brand new psychologist, if you have either a lot of assets, you are nervous about on the side from a personal end, or maybe you're in a higher-risk setting where you're worried about the potential lawsuit or suit. Then you can form that LLC or PLLC to have that protection of liability, which separates you as an individual from your private practice, more common though, is why we see folks move on and progress is to become that S corporation. You cannot be taxed as an S corporation, unless you are incorporated.

Now, the only asterisk that it talked about is for those in California. Unfortunately, you don't have the option to be an LLC or PLLC. The state of California has a special designation called a professional corporation. Now, if you are looking for that liability protection in California, but not a good fit yet to become an S corp, I would really think strong and hard about forming that professional corporation. Why that is a professional corporation is taxed as a corporation, whereas LLCs and PLLCs are by default taxed as a sole proprietorship.

I wanted to give that context because that's going to affect how you're paying taxes. If you are formed or not having formed at all in a sole proprietor, which we've worked with many folks that have been in practice for 30 years in a state as a sole proprietor, or you're an LLC or PLLC that is not taxed as an S corp, you file what's called a schedule C. That schedule C is a tax form that is included with your personal tax return. The difference normally we'll see is with an S corporation, is an S corporation you're filing what's called an 1120S on March 15th. A month ahead, before your personal taxes are due. There's a form that you take from the S Corp and you include with your personal tax return.

Every one of our members is either taxed as a sole proprietor or S corporation. Often in solo practices or small group practices, we rarely see C corporation. I'm going to continue on just focusing on that sole proprietor and S Corp side. Both situations, they're called pass-through entities. What does that mean? Is the profit, and

remember your tax on your profit from your private practice passes through to your personal tax return. Then you're paying taxes all at once through your personal tax return. We often get asked like, "Hey, do I need to pay business taxes?" Technically, the taxes driven from your private practice are personal taxes. Very weird concept.

That's why I'm bringing this all up because how much you're taxed varies much more than just beyond your private practice. Are you married filing jointly and your spouse has no or very high W-2 income? Do you have dependents or kids that you're claiming? High student loan interest enabled that deduct that. It really varies a lot person-to-person, but then as well as practice-to-practice, part-time, full-time, are you an S Corp? Are you not an S Corp? The fun part about taxes though is the deductions piece. We're asked the question is, what is the secret to making money as a solo practitioner? My taxes show that I'm losing money, not making money.

One, kudos to you for opening up and making that journey. It's never easy to make that transition. There's a lot of challenges, new expenses, adding that caseload, et cetera, et cetera. What you want to think about when you get that end-of-the-year tax bill, it might not be from your business. Maybe you or your spouse has a W-2 position where you're not withholding enough on your W-2. The best way to determine how your practice is performing is that profit from your business, your income minus expenses. Less on how much taxes you're paying in April and more on that profit piece.

Now, why do we see so many psychologists likely paying more than \$20,000 in taxes? If you remember back earlier on in the presentation around the income and profit sides, so well beyond that amount. Now, one tactic could be transferring to an S Corp, which could have some tax savings. If you remember, that was easily \$100,000 profit was a threshold there. Back to that question of, one, I know it helped answer at least maybe getting more clarity to what that tax bill owes was in April. The other piece is tax deductions.

Tax deductions is an ordinary and necessary expense to operate your private practice. These are going to be your best way to continually lowering down that profit to pay less in taxes overall. There's a variety of different deductions for these business expenses to take. Obviously, you always want to stay in accordance of the IRS, but there's maybe things like personal psychology that could be considered. We have great blog posts online about the top tax deductions, which is really helpful to identify these. There's usually always one or two where you realize, and then you get to start including them, which helps pay less in taxes.

Michael: That was really helpful, Forrest. Something I would just add here before we move on is that paying a lot in taxes is a good thing, which we tell therapists, psychologists, it's like, no, it means your business did really well last year. If you owe \$20,000, \$30,000 in taxes, it means you had a really good year. Now there's strategies that we can put in place to try to lower that tax liability, like investing in a retirement plan, for example or electing an S Corp, things like that. Just a reframe that I would like to share here is that paying a lot of taxes means that you had a good year financially. It's a good problem to have, even though it hurts at the time.

Forrest: Mike, I think that's a really great point, because it's always stressful, especially if you move from W-2 to private practice. Wait, I feel like I'm paying so

much more in taxes. Especially of those folks who are in that 20,000 plus, make sure you're working with a good CPA account as well. There's the corny saying of more money, more problems, but it is true when it comes to accounting and taxes. It also could be more solutions, more offerings, more advantages. Working with someone who's a little bit more strategic when you're in that triple-digit income number is a great way to invest. Ideally find some of those new tax savings, tax deductions, et cetera.

Another one of the big surprises I know for new psychologists heading to private practice is quarterly taxes. For those who aren't very familiar with these, I apologize, I'm going to start somewhat basic or foundational here, because it is a critical concept to understand because of the mass amount across the board of folks who don't pay quarterly tax estimates, which we find is easy to do for a few reasons. One, they just didn't know about them. I know before I joined Heard, I worked in the Fortune 500 large company standpoint. I didn't even know about quarterly taxes, wasn't a thing.

I think the other piece is, how do I even calculate how much I pay for quarterly taxes? Then the third reason is often, I don't even know where to pay them or how to pay them. Why are you paying quarterly tax estimates? Eyes back to that concept earlier I was talking about of you're paying your taxes from your business through your personal side. Quarterly tax estimates should technically be paid from your personal tax side or personal bank account. I always bring up the example of when you have your first job in high school. Maybe it was like myself, I was a bus boy at a restaurant.

You get to that end of the pay period and you calculate in your head of, oh, I think I'm going to get \$400 after those two weeks, and I can't go wait to go buy X, Y, Z, et cetera, et cetera. Then you get your paycheck and it's like \$320. Wait, am I owed an additional \$80? What happened here? Then you look at your pay stub and you see unemployment, state and federal income taxes, FICA, Medicare, Medicaid. All these amounts getting automatically withdrawn from your paycheck. That money that comes in direct deposited to your account or that check is post-tax.

When you are a self-employed individual, which are sole proprietors, LLCs, PLLCs, like a lot of you on the call today, when you're getting paid, that is pre-tax. After your first month of sessions and your first year of private practice, you're sitting there like, "Great, awesome. I have all this money, I'm going to spend all this money or here's what I'm going to do with it." Remember that that income coming in or that amount sitting in your bank account at the end of the month is pre-tax. How does the IRS end up collecting that money? When you're W-2, it's usually those every two weeks, they're taking those amounts, respective amounts out.

As a self-employed individual, you are paying the IRS each quarter. I guess the one advantage is you're not having to pay it every two weeks, you're paying it every quarter. The disadvantage is you're having to calculate it yourself. Now, if you've been in private practice in years past, when you file your taxes at the end of the year, there'll be what's called the safe harbor estimates. There are four vouchers on one of the last pages of your return, and that would be the minimum amount you can pay in quarterly tax estimates.

Now, if you're brand new to practice, what's a good directional number to use? About 30% of profit. In the fun world of accounting and taxes, everything varies. Here's another situation where it's based on your state, if you have W-2 income, if your spouse has W income, your filing status. Again, if you're just looking for a directional number, 30% of your profit. You get to the end of the first quarter. What's roughly your profit, and you have about 30% of your profit. That's what you want to be paying for your first quarter tax estimates.

Now, the IRS is not nice and makes Q1 estimates for due the same exact day as your 2024 tax return. The next date to keep in mind is June 15th. If you've never paid estimates before, and you're past a great year to start, because it can help avoid those fines and penalties, that started growing. Maybe you missed Q1, or weren't aware about Q1. Q2 is a great opportunity to catch up. Start saving more now for that if I have to make up for Q1, and I want to pay Q2.

Fast forward to the end of the year, you've made these four quarterly tax estimates. Then when you go to file your annual taxes, you'll see a box that says, for this year, 2025 quarterly tax estimates. That's going to reduce your personal tax income. You're not just throwing this money into a pit. The end of the year, let's say, I owe \$20,000 in taxes as my personal return. I've already paid \$18,000 in quarterly tax estimates. That means I'm only owing two more. If you overpaid, you'd be getting that as a credit back at the end of the year.

I know there's a few pre-submitted questions around QTEs, how they work, when to pay them, how to pay them, and it's a tough concept for sure. The other thing to remember is state and federal. There are some states, Washington, Texas, Florida, who don't have state income tax, but if you do have state income tax, which is the majority of the states out there, there's both that federal and state. How do you think about splitting that 30% of profit that you're setting aside each month to state and federal? The best answer is working with an accountant or CPA on it.

There's no easy number to give on that specific split, unless you've been in private practice years past, where you'll get that voucher at the end of the year, which will be that minimum amount. Sorry for the soapbox on quarterly taxes, but I just find it so important because at the end of the year, not only do you get fined and penalized, you get in April and you're hit with this ginormous tax bill potentially, because you haven't been paying those estimates. Then you go on a payment plan and again, it's just this snowball. Try your best, mark these dates in your calendar each quarter, make the payments. You can even make the payments early, a few days before the deadline, if you'd like. Ideally it leads to a much smoother annual tax season as well, when you get to April 2026. [silence]

Bookkeeping. This is a really important concept because bookkeeping is the foundational to understanding how your finances work across the board. What is bookkeeping? It's simply categorizing all the income and expenses for your business. I shouldn't say simply, but I think that the concept folks often think it's much more mundane or detailed. A deposit comes in to my account. Maybe it's right because I use simple practice and then I would categorize that as therapy income. Now, maybe I had a few checks written for the Sunday group session I was running. Group therapy income. Categorizing each one of those income.

Really where this comes more into effect is the expenses. There's about 16 or 20 different categories that the IRS has for expenses. Each one of those expenses also needs to be categorized. Advertising or marketing, for example, interest expense. We usually see anywhere from 20 to maybe a low hundreds in terms of number of transactions a month. Depending on how much you're buying, when you're buying and what you're buying, the level of effort for bookkeeping could vary, but each one of those transactions should be categorized.

Why are you doing this? It's because then at the end of the month, A, you know your profit, you have your income categorized minus all of your different expenses, which are categorized leading down to your profit. That profit number is how much you're going to use to save 30% for quarterly taxes. How much am I going to pay myself as an owner's distribution? Maybe setting aside some for a rainy day fund. It helps you understand. Have that business owner side of the hat on of understanding how your business is actually performing.

You get to the end of the year and your CPA or accountant is going to say, "Hey, Mike, I need your bookkeeping records to file your annual taxes." All right. Imagine if you get to February of next year and have to go all the way back to January of this year. 14 months ago, and remember, oh shoot, what was that \$20 Amazon expense that I made January 3rd? No idea. If you make an effort to do your bookkeeping each month, go through that categorization. You'll get to the end of the year, have everything categorized, make it much easier to hand it right to your CPA and also better understand how that business is performing throughout the year.

There's a lot of different ways to do bookkeeping. One common way you might heard of the software called the QuickBooks or Wave, connects to your bank account, and then you go in and categorize all those transactions. Some folks use a simple Google spreadsheet because all you need to do your bookkeeping is the date description and dollar amount. Then you would just add in those categories. Heard as well. We do bookkeeping and the best part is when we work with mental health providers, all of our categories and stuff is customized to it.

Definitely invest in the time to do bookkeeping. Think about it back from that time money value. How much time am I spending a month on bookkeeping. If I'm spending more than, let's say, an hour a month on bookkeeping, then my thought is, wow, if I could see an extra patient, that'd be an additional \$200 in revenue or income. Would I rather do that for the hour and make \$200 and then pay someone maybe it's \$100 a month to do my bookkeeping? Not only do I not have to do the bookkeeping anymore, but I'm also making more money. That's it on my rant on bookkeeping.

Michael: Thanks, Forrest. I'm going to bring us home here with an overview of some future trends, which are really interesting. Then we're going to save time here for questions. Thank you so much for everyone who has already asked questions in the Q&A. Please drop any questions that you have so we can make sure that we get to them with the remaining time that we have. You've probably started to hear more about AI and ChatGPT and what does that mean for therapists and psychologists.

We were interested. We asked, "Are you using AI in your practice today?" About 1 in 5, so 23% of psychologists reported yes, that they're at least testing, experimenting

with AI in their practice. The most common use case for AI that we see today for therapists is using a AI scribe or AI notetaker. There are AI tools that are HIPAA compliant that can run in the background during your session, whether you're offering a virtual session or in person. Then at the end of that session, based on the transcript, it produces a progress note or session note for that session.

These tools also can create treatment plans for you. The thing that I would just say here is that AI is a tool. It's not inherently good or bad. This is at least my perspective. You may feel differently personally, but I would say that it's a tool. What's really important is that if you are going to implement it in your practice, one, that you'd get consent from your client that it's okay to use it. Then two, that the tool that you're working with, it's HIPAA compliant, it's secure, you understand what they're doing with the data. Are they recording those sessions or not? With a lot of these tools today, the transcript will be created and then the recording will be deleted so they don't keep it on file.

Just make sure that if you're going to use AI or start to use it in your practice, that you're doing it in an ethical way. I will say, it has the potential to save you time and also streamline some of the more admin work in your practice. We also asked, "How are you seeing patients today? Are you seeing patients virtually, or are you seeing them in person?" Interesting, over 40% of psychologists are seeing patients from home, meaning I'm expecting this is mostly virtually from home, so not having clients come to their home.

Around 30%, so one in three psychologists are doing both. I know when we asked all therapists nationwide who completed the survey, only 2% said they exclusively see clients in person, which to me was really surprising. I thought by this point, more folks would be back in person exclusively, but 98%, almost 100% of therapists are still seeing at least some clients virtually. My interpretation of this is that virtual therapy really is here to stay, and it's not going anywhere.

The other thing we see too is when we asked about expenses, the biggest expense for therapists nationwide in private practice was rent, office rent. We talk about trying to lower your expenses. One way to do that would be going to virtual and not having to pay that rent. Amazing. Before we just get to Q&A here, I did want to share this with you. If you're interested in learning more about Heard and how we can support your business, we do offer free consultation calls. You just pull out your phone, scan this QR code. We can drop a link in the chat as well.

We're also very excited to be able to offer APA members a discount on our monthly plan. Our pricing is listed on our website. You're encouraged to check it out. We offer 15% discount for annual billing. We typically don't offer any discounts or promotions on our monthly plans, but we were able to get this approved for APA exclusively. Super excited about that. If you are interested, I encourage you to schedule the free consultation call. Then if you do decide to sign up, just make sure you use that code APA503. When you sign up, we'll email that out as well, but that's going to save you at least \$300, which is, which is nice.

Forrest: Mike, just one or two other little things to call here. One is May 12th. If you're someone who's needing those quarterly tax estimates, we do have a sign-up deadline for Heard on May 12th. Why that is we want to go through your

bookkeeping and do January up until the end of May. That way we're providing you a personalized and accurate tax estimate. If you had joined June 1st in full transit, there's no way we can give you an accurate estimate in 14 days when it's due on June 15th. That's why you'll see we try to be flexible as possible in terms of having that monthly code go out until May 12th.

Another thing I mentioned was S Corps earlier. It's a great service Heard does as well is we provide free S Corps savings assessments to our members. If you're one of that large majority, making over \$100,000 in profit and unsure of if an S Corp is right, as a member of Heard, and we can't do this on the consult, just requires too much information, but we can do those assessments for you out the year and help determine if it's a good fit. If it is, we'll help you transition accordingly.

Michael: Awesome, do you have any field questions here?

Forrest: Mel, anyone's right off the bat you think's worth starting with? Mike, I know you might've been in there too, but just so we can get an audience pulse.

Mel: Yes, we have one that has the most upvotes here. Going back to insurance and private pay, I find it very hard to see both insurance and private pay clients at the same time, because once I am credentialed, I can't agree to private pay with anyone with that insurance. Any ideas how to navigate this?

Forrest: Mike, I wouldn't have personally any great advice on this one.

Michael: No, this is a good question. This is less of an accounting question. This is more of a insurance billing-specific question. It's a little bit out of our area of expertise. What I have seen though, is if you take you take Blue Cross, you take Cigna, you take Aetna, if you're on multiple panels, letting some of those contracts expire, but only keeping one. Basically, you just only take one insurance, but then you let those contracts expire with the other insurances that you take. Then you're only taking one basically. You're going down that way, if that makes sense. It's one approach that I've seen.

Then just running through here, Weston asked, "So with SIPAC, do you pay taxes in each state where you have clients? When we were talking about quarterly taxes, or is that solely in the state where you're incorporated?" That's a great question. It's a nuanced question. What I would say here is that it depends on something called economic nexus. What that means is if you earn over a certain income in a particular state, they may require you to report that income and pay state income tax on it.

Typically, the economic nexus thresholds in states is quite high. It's 50,000, \$100,000 a year. If you're just seeing a few clients in your caseload virtually who live in another state, you probably won't have to report that income. What we always recommend, just because every state has different rules, is every state has a secretary of state or a department of revenue website. Just give them a call and just ask is the best way there.

Forrest: I'll take the next one, Mike, from Eliza. "How much do psychologists pay on average annually for CEs, trainings, and conferences?" We don't have exact data on this. However, we do know 11% of our respondents selected trainings as the top

expense. I know from my experience, we're helping review our club members' P&Ls or profit and loss statements. You continually see CEUs not only being there often, but not cheap.

I know one cost-cutting measure for this is there's some companies out there like CEU4Less that offers an unlimited course bundle for a few hundred dollars. Trying to combine it, they also offer live setting as well. You can knock all them out with one company. No, it might not be as exciting because some of these conferences are the ones that have those special CEUs, but something to keep in mind if you're really trying to cut Scott around that.

Michael: "Would you recommend a bookkeeper or CPA? What are the differences between them?" That's a great question. We talked about the difference between bookkeeping and tax filing. A bookkeeper is someone who's going to categorize your transactions for you on a monthly basis. What that means is they'll basically get you ready to file your taxes. It's also helpful on an ongoing basis so you know month to month and quarter to quarter how your business is doing.

A CPA is someone who files your tax return. Tax repairs don't have to be a CPA. You can also be what's called an EA or an enrolled agent, but a CPA is a certified public accountant. It's a license designation. You have to sit for an exam and pass. Typically, CPAs are the ones who are filing your taxes, meeting with you, working with you on tax saving optimization strategies, whereas a bookkeeper, they're doing your books every month.

Forrest: Fun fact, your CPA does not have to be in your specific state. Different than some other professional licensures. I know we still have a few questions left, but want to pass it also back to the team at APA. Thanks again for asking all of these questions. If it's a question, high-level or service-oriented or new business advisors on those consults can answer. That's one of the great benefits of Heard as well. As a member, you have unlimited support. You can ask our team of therapist experts or psychologist experts whatever questions you may have regarding taxes and accounting. They're here to provide that in a quick and personalized nature. Thanks again.

Moderator: Thank you so much for joining us, Forrest and Michael. Thank you to all our listeners for your participation. We'd also like to thank Heard for making this webinar possible. A recording of this presentation will be emailed to everyone in two weeks' time. The recording will include the presentation slides. As soon as the webinar has ended, a short survey will appear on your screen. Please take the survey and give us your feedback. We thank you for your attention and hope you have a great day.

[00:56:51] [END OF AUDIO]