

Income & Expenses

Overview of Typical Examples for Self-Employed (Sole Proprietor) Translators

ATA Webinar 2010
Taxes for Translators
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Translation Income

- 1099-MISC – From translation agencies that paid you \$600 or more per year
- Your records of translation jobs from single sources that paid you less than \$600 per year
- Your records of translation jobs from foreign sources not subject to IRS reporting regulations
- Tips

Deductible Expenses (Keep Written Records & Receipts)

- Home Office Deduction (sq.ft. of room or area in a room inside your home used regularly and exclusively as principal place of your translation business ÷ sq.ft. of entire home)
 - Annual rent (or if you own your home, real-estate taxes & mortgage interest)
 - Renter's insurance or home-owner's insurance
 - Condominium fees, if you own your condominium
 - Utilities (annual amounts for entire house)
 - Either the amount for entire house or the amount for office only:
 - ❖ Repairs or maintenance (painting of the entire house, or painting of the home-office room; roof repair; HVAC repair, etc.)
 - ❖ Cleaning costs
 - ❖ Pest control
 - ❖ Security System, etc.
 - ❖ Not Included: Snow removal, landscaping, etc. (because generally clients do not go to your home in the conduct of your business so an exterior access or visual improvement is not related to your home office)
- Vehicle Used In Your Business for Business Meetings, etc. (not for commuting to a job)
 - Written record of mileage at beginning & end of year; mileage of each business-meeting trip; each trip exclusively for business purpose and not personal purpose
 - Make & model of car, date bought
 - Standard mileage rate, so no need to keep gas & repair receipts
 - Annual interest paid on car loan
 - Personal property taxes paid on car
- Business Property (cost is generally > \$100; useful life is probably several years)
 - For example, computer, printer, software, website development, cell phone used exclusively for business, furniture, major dictionaries & reference books, etc.
- Business Expenses (cost is generally < \$100 per item; useful life probably < 1 year)
 - For example, business cards, minor dictionaries, books, journals & magazines, errors & omissions professional insurance, computer repair, monthly internet service, monthly cell phone service, monthly website hosting fee, mouse, printer ink, computer memory storage device, membership dues, professional education domestic or foreign and related meals, continuing education, local public transportation charges to a business meeting, professional webinars, subscriptions, paper, pens, light bulbs, room fan, graduation certificate framing, decorative pictures, minor software, translation-business bank charges, credit card fees for translation-business credit card, credit card interest for translation-business credit card, foreign transaction currency conversion fees for translation-business foreign purchases, local business occupancy taxes & fees, etc. If you have business use and personal use for an item, keep a written log detailing each portion.
- Self-Employed Health Insurance Premiums
- SEP contributions, Roth IRA contributions, etc.

State & Local Income Taxes

- Quarterly estimated taxes are generally due to the state(s) in the same manner as to the IRS.
- Search the state Department of Revenue website for resident & non-resident income tax forms. Fill them out on-line based on the IRS Form 1040. Tax is due generally based on the state in which you actually do the work, and the state where you reside, not the state where the work comes from. Fill out a non-resident state tax form first if you did work physically in a state where you do not reside, and finally fill out your resident state tax form and take a credit for taxes paid in non-resident state(s) to avoid double taxation.
- Search the city Department of Revenue website for profits tax or earnings tax requirements and forms.

Quarterly Estimated Taxes

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| | Search IRS.gov for 2010 Form 1040-ES for forms & mailing address. Search your state department of revenue for similar forms |
| Quarter 1 | January ~ March (3 months), due April 15 |
| Quarter 2 | April ~ May (2 months), due June 15 |
| Quarter 3 | June ~ August (3 months), due September 15 |
| Quarter 4 | September ~ December (4 months), due January 15 |

Record Keeping

Keep good written records:

- Consider keeping a separate bank account for depositing your payments & making translation-business related payments.
- Consider keeping a separate credit card for business-related expenses.
- As a sole proprietor (self-employed contractor), you cannot pay yourself a salary. Your personal income is the money remaining after you pay the business-related expenses & taxes.
- Keep a written record of deposits & payments in Quicken.
- Keep a written record of income & expenses and of mileage in Microsoft Excel:
 - Payer Information, Invoice Information, Payment Received Information, Translation Location (City & State), etc.

Major Take-Away Points

Point 1 – How to Choose a Tax Preparer

- Give the preparer plenty of time: February 15 ~ March 15 is a slow time for tax preparation.
- Ask the question: If I take a home office deduction, what are the ramifications for the sale of my home in the future, particularly with regard to the recapture of the depreciation taken? If the preparer gives you a blank stare, or obfuscates, or does not tell you about “recapture of the depreciation, allowed or allowable” say that you have complex tax issues and you need a more experienced tax preparer. Move on! If you get a succinct answer (you must keep track of the home-office depreciation* and pay capital gains tax** on it when you sell your house), you’ve probably found a gem!

*Form 8829 [Expenses for Business Use of Your Home], Line 29 [Depreciation on Home]

** Schedule D [Capital Gains & Losses]

Point 2 – Even Monkeys Fall from Trees

- Get a guarantee that covers you for 3 years (the time in which the IRS can audit your return) for penalty & interest, and for additional taxes up to \$5,000. Pay extra if needed for the peace of mind, particularly in a year when you have complex issues such as when you sell your house after having claimed a home-office deduction. Avoid the hassle, headache and lost business involved in dealing an IRS, state or city audit & back taxes.