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Business 101 for Translators & Interpreters Do I Have to Pay Quarterly Estimated Taxes?

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Yes. Self-employed translators and interpreters have to pay quarterly estimated taxes. The quarterly estimated taxes are a combination of income tax and self-employment tax (Self-Employment Tax = Social Security Tax & Medicare Tax).

In Form 1040-ES, the IRS says, “Estimated tax is the method used to pay tax on income that is not subject to withholding (for example, on earnings from self-employment...). The estimated tax rules apply to U.S. citizens and resident aliens ... and non-resident aliens.”

Translators and interpreters like Terri the Translator and Inez the Interpreter who are self-employed must pay quarterly estimated taxes.

What does “Self-Employment” mean?

“Self-Employment” means that Terri and Inez work for themselves as “sole-proprietors” or “independent contractors.” That means that Terri operates her own business as a translation professional at her home office or at a private client’s office, etc., or Inez performs her interpreting services at hospitals or courts, or at business or law offices, or on the telephone at her home office, etc. The T&I agencies, hospitals, courts, attorneys, private clients, etc. do not employ Terri or Inez. Terri and Inez provide their T&I services to them as a freelancer.

Those T&I agencies, courts, etc. make a report annually to the IRS about the total amount of money that they have paid to the translator or interpreter in that year. That’s why Terri filled out an IRS Form W-9 and gave them her Social Security Number when she initially agreed to provide services. They do not withhold any taxes from the money

they pay her, and they do not pay any taxes for her. At the beginning of the following year, they report the total amount that they paid to Terri on Form 1099-MISC and send the form to the IRS, and they also send Terri a copy of that 1099-MISC. If the total amount that the agency, etc. paid to Terri in that year was less than \$600, that agency, etc. is not required to report its payments to the IRS or to Terri. Or if the agency is a foreign agency beyond the jurisdiction of the IRS, they are not required to make a report to the IRS. However all those payments are still subject to tax, and Terri must report the payments herself on her income tax return. It is her responsibility to keep good track of her income.

On the other hand, Joan, who took the steps to incorporate her small business with the Missouri Secretary of State and calls her business "Terrific Translations by Joan, Inc.," pays quarterly estimated taxes in a manner similar to how Terri does it, but Joan pays her quarterly estimated taxes as a corporation.

Who is not self-employed?

A translator or interpreter who works for a company as an employee is not self-employed. That employee signs an employment agreement with the employer, the employer pays the employee a salary, and the employer says that the employee must be at work at a specific location, during a specific period of time, for a specific number of hours a week. The employer withholds taxes from the employee's salary in each pay period, and the employer pays that money for the employee to the IRS. The employer reports the amount of the employee's salary and taxes withheld to the IRS on Form W-2 at the beginning of the next year, and the employer also gives a copy of the Form W-2 to the employee. An employee does not pay quarterly estimated taxes.

When does a self-employed person pay quarterly estimated taxes?

Terri and Inez pay their quarterly estimated taxes 4 times a year. The dates by which a self-employed person's quarterly estimated taxes must be in the mail and postmarked to the IRS are below (the dates may change a bit from year to year based on federal government holidays).

Quarter 1 payment is mailed by April 15 for the 3-month period January ~ March.

Quarter 2 payment is mailed by June 15 for the 2-month period April ~ May.

Quarter 3 payment is mailed by September 15 for the 3-month period June ~ August.

Quarter 4 payment is mailed by January 15 for the 4-month period September ~ December.

How much does a self-employed person pay per quarter?

In essence, the IRS says that we must figure out how much the estimated taxes on our yearly income will be, and we must pay $\frac{1}{4}$ of the total estimated taxes each quarter.

But, after all, they are estimates. The IRS can impose a penalty on us if we underpay quarterly estimated taxes, but they say that they won't impose a penalty if the quarterly estimated tax payments equal 90% of the tax on your tax return for this year, or if they equal 100% of the tax from the previous year.

Terri and Inez are seasoned professionals, and for this year (2012) they expect that they will earn a little bit more than last year (2011) and that their deductions will be about the same. So this year, as long as their tax payments each quarter this year are 25% of last year's total tax, they should be fine.

If Terri and Inez were new to the profession, since they would have no idea how much they would make this year, they might consider doing this: keeping track of how much they made during the quarter and making a quarterly estimated tax payment that is about 30% of their earnings in that quarter (30% = 15% income tax + 15% self-employment tax). That seems to be a good-faith estimate. In the 4th quarter, they could make adjustments to bring the total payments up to 90% of what they probably might owe. (If it ends up that there is a penalty in the first few years, it probably will not turn out to be a huge amount of money. However, it's not a good idea to keep paying penalties year after year.)

When Terri completes her 2012 Form 1040 tax return by April 15, 2013, she subtracts the total amount paid in quarterly estimated taxes from the total amount of taxes due. She then gets a refund or pays the additional tax.

You can find the forms used to pay quarterly estimated taxes at www.irs.gov searching for "Form 1040-ES." It will also give you the mailing address of the IRS office based on your state of residence, as well as a worksheet to make your calculations.

Most states in the USA also have a similar requirement to pay quarterly estimated state income tax, and you can find those forms and details on the Department of Revenue website in your state. The dates for paying the quarterly estimated state income tax are generally the same as the dates for the IRS, and a good-faith estimate in the Midwest generally turns out to be 4~5% per year. If you live in one state (for example, Prairie Village, KS) and all your income comes from another state (for example, Kansas City, MO), pay the quarterly estimated taxes to the state where you work. Then settle up with the state where you live when you file your income tax return. If part of your income comes from one state, and part comes from the state where you live, figure it out proportionally and pay estimated taxes to both states at least for the first few years until you get it all figured out.

Terri knows that she pays income tax only in the state where she physically does the work or where she lives. If she works at her home office in Kansas, and the work comes from a translation agency in New York, she does not owe state income tax in New York. She owes income tax on that income only in Kansas.

If your city imposes an Earnings Tax or Profits Tax, they generally are not subject to quarterly estimated tax payments, but it is best to confirm this at the Revenue Department at City Hall. The difference between the Earnings Tax and the Profits Tax is that an employee pays Earnings Tax, and a self-employed person pays Profits Tax. The percentage is generally the same. The forms are generally different.