

John Matthews  
JohnMatthews.us  
jwmatt@yahoo.com



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## **Business 101 for Translators & Interpreters**

### **What Is Depreciation and How Does Depreciation Benefit Me?**

by John Matthews, MBA & CT  
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Depreciation saves you money. It is a deduction on your federal tax form. When you have a deduction, you reduce your taxable income, and therefore you reduce your taxes.

Calculating depreciation can be complex, so it is best to leave this to your professional tax preparer. [Does this remind you of why a translation should be done by a professional translator and not by a foreign-exchange student?]

These are the main general concepts about depreciation.

Depreciation is a deduction for business expenses related to your translation or interpreting business. Examples of these business expenses are:

- Computers
- Office Furniture
- Software like SDL Trados Studio, Microsoft Office, etc.

Depreciation is already included in the following deductions, so it is not necessary to calculate it separately:

- Mileage deduction standard rate
- Home office deductions

Generally speaking, when the life expectancy of the item is one year or less, or if the expense is relatively minor such as less than about \$100, you just deduct the full amount of the expense for the item on your tax form. But when the life expectancy of the item is more than one year, you deduct the expense for the item as depreciation.

The IRS defines two main issues related to expenses for items you depreciate in your business.

1. Whether the item is listed or not. "Listed" in essence means that the item is used sometimes for personal use and sometimes for business use.
2. How many years the life expectancy is for depreciable items like office electronics or office furniture.

When you buy the item new and use it solely for business, you have the option of taking the depreciation deduction divided over the time span of the life expectancy, or taking the depreciation deduction all at once. If you decide to take the deduction all at once, it is called a Section 179 deduction.

When you use an item less than 100% for business, or transfer an item from personal use and start to use it solely for business (like taking furniture from personal use and starting to use it only for business), you can only take the depreciation deduction divided over the time span of the life expectancy.

Those are the general concepts about depreciation. When you talk with your tax preparer, the information the tax preparer will need is:

1. The receipt, if you purchased the item.
2. The percentage of business use. If your business use is 100%, you must decide whether you want to take the full deduction this year, or whether you want to divide the deduction over the life expectancy of the item.
3. The estimated value of the office furniture, etc. if you transferred it from personal use to business use.

So, if you buy a computer for \$1,000 for your business in 2013 and use it 100% for your business, you can deduct the entire amount (the depreciation) from your income in 2013, or you can deduct it over 5 years generally speaking at \$200 in 2013, \$200, in 2014, \$200 in 2015, etc. If you move a desk and chair from your basement into your translation home office in 2013 and it has an estimated value of \$350, you can deduct it over 7 years at \$50 in 2013, \$50 in 2014, etc.