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Financial skills for freelancers

A guide for translators and interpreters

Paul Ratcliffe
FCIL Chartered Linguist



About the author

Paul Ratcliffe
FCIL Chartered Linguist

Paul is a Fellow of the Chartered Institute of Linguists and a Chartered Linguist. He is also an MBA and LLM graduate, and has just completed a PhD in law. He is a Fellow of the Chartered Institute of Personnel and Development, and, as well as his current full-time work as a translator, has previously worked in publishing, software localisation, HR, and as lecturer in management, languages, and project management, and has held senior management and production director positions in well-known national and international translation and localisation companies. He has worked as a translator, part-time, and latterly full-time since 1990.



Financial skills for Freelancers

While potentially offering good earnings, considerable flexibility, subject interest, and a high level of organisational control, the inexorable 'time/cost/quality' nexus means that the financial aspect of languages professions is a key component which must also be in equilibrium with the others. This mini guide seeks to provide an insight into these parameters.

The freelance translator or interpreter is fortunate in the sense of having potentially very few financial overheads, materials, consumables or other upfront costs to be incurred.

Capital costs will be: a permanent external drive back-up for all your work and records (such as the Mac Time Machine system) and the all-important PC/Mac. You will need at least one laptop, one desktop, a spare keyboard and printer. It is essential to have two computers and possibly even two printers – you will find yourself in the position of a complete breakdown of this key equipment from time to time, and clients will not be interested in hearing about these problems!


Other recurrent annual costs will relate to a good broadband connection, a smartphone to ensure you do not lose trade when away from your computer, the use of your home as an office, secretarial

or support assistance if you have a colleague/partner who will do this for you, professional indemnity insurance, and maintaining your professional memberships, software (e.g. antivirus, periodic MS Office, and other software upgrades).

In general, it is also important to keep records and receipts of deductible expenses that you can claim against tax. Note that training and tuition, including manuals and textbooks (so long as this is genuinely relevant to your profession) can also be claimed as a deductible cost. Receipts must be retained. The same applies for professional subscriptions and memberships, and professional indemnity insurance – see <https://www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3>.

Time

The most important cost to you as a freelancer is your time, and because of the various different ways interpreting work can be charged, this short guide focuses on translation as a business model, but the principles are very largely the same for these main strands of the linguistic professions.



The most important inputs to your translation work as a professional linguist entail the determination of how much you are ‘paying yourself’, in other words, how much you can earn per hour.

For example: a client contacts you with a 5,986-word job which they need translated for next Wednesday. If this involves, say, three available full working days, with delivery first thing on day four, it is probably safe to accept it. You might say that you will charge £0.085/source word, so this job will earn you £508.81 *before tax*. The next important question is how long it will actually take you to do the work. If, for example, you can produce 600 completed and checked words per hour (remember it may be a very technical text, involving research and extra levels of cross-checking), then this will take you almost ten hours (5986/600). This means you are paying yourself c. £50/hr (*before tax*). You may opt to do all the work in ten hours of one day, or five hours across two days, or 3.33 hours per day over three days. So long as you deliver on time, and the work is of a high standard, all well and good.

Money

The example above is not the whole story, however. If one received conveniently batched projects of c. 6000 words every four days, that would mean that given potentially 22 (x 8-hour) working days a month, a potential annual pre-tax revenue of £105,600 (12 x 22 x 8 x £50) (before tax) might be possible. Ostensibly this is a pleasing, rewarding

prospect, and one could make a very good living as a translator. However, as we know, rates and earnings surveys for the sector show that few translators earn anything approaching that much, and a more realistic “normal” income range is closer to £28k – £50k.

What happened therefore to the 50% or more of the year, during which one could have been earning money? As we know very well, the demand for translation is self-evidently unpredictable, and one is not exactly spending all of the available time directly earning by translating words on a maximum potential basis. The important answer is that working as a freelance linguist, on the one hand, certainly does afford the luxury of flexibility, i.e. working intensively to ensure maximum output in case multiple jobs come along at once, or to maximise spare time for doing other things, but on the other hand there is a risk of unpredictability, especially in volatile markets increasingly subject to exogenous shocks, such as most recently Brexit and the C-19 pandemic.

Where freelancing is one’s sole income, however, it is important to bear in mind certain things:

- A.** The more work you do, and the more reliable (deadlines, quality, ‘user-friendly’ attributes) you prove yourself to be, the more work you will have, all things being equal.

- B.** Always meet, or beat your deadlines, come what may.
- C.** In some months you may earn very little, so budget for the whole year and not on the basis of an atypically good (or bad) month.
- D.** Always spend at least some time when work is not coming in, on marketing.
- E.** Always invoice everything very promptly at the end of each month in separate account invoices for each separate client, and check as you go that your invoices are actually being paid on a reliable basis, systematically chasing any bad payers.
- F.** Remember that administrative time (tax records, marketing, printing, sending, and filing invoices, etc.) is also time you must divide through all the other “directly” paid time. If you are not on top of this, it may cut into your overall efficiency and profitability.
- G.** Keep very good records, and be systematic in how you do this.

Record-keeping

This last point concerning records, self-evidently banal though it may seem, is the key to good financial management. In addition to which, you are required in any case to retain records of expenses claimed for a rolling period of six years. You must also retain your business records

for five years following the 31 January filing deadline for the financial year ended in the previous April. So a six-year period is a good rule of thumb as a guideline for everything – invoices, bills, bank statements, tax returns, receipts, client and business records.

To ensure that time is not wasted hunting around for these documents and records, especially when preparing information for tax returns, it is essential to have a reliable system for filing as you go, which will also prevent these items going astray. The failure to do this will needlessly waste days of your time.

Allowable expenses are listed in detail at: <https://www.gov.uk/expenses-if-youre-self-employed>.

There are some good software packages one can buy that may suit freelancers, but most people should be able to create a monthly spreadsheet for themselves, which must detail all of the following as a basic minimum:

- **Order date** (when you received the job from the client, i.e. start date)
- **Client name** (and full address, contact details for each client)
- **A brief description** of the job (which will also go on the invoice)

- **Total source words**
- **Total hours** (if that is the charging basis)
- **Total job value** (£/€, or whichever payment currency)
- **Your own unique incrementing reference**
(e.g. LV27 – e.g. your 27th job for client “L.V.”)
- **The client’s own job reference** (if they have one)
- The all-important **due date** (*never default on a due date*)
- **The invoice reference** (e.g. 201001 would be your first invoice for a client in October 2010)
- **The invoice date** (which will normally be the last date of the month).

If you do this, you will know at all times how your earnings are progressing against whatever your income targets and needs may be, and which are your best/most frequent/most lucrative clients, and you will be ready to issue invoices promptly at the end of each month. This will also enable you to consolidate invoices against actual payments and to quickly identify any problems. The reconciliation of invoices against payments can be done using your bank statements or whatever is most convenient, and many may regard this as a tedious process, but it is very important to be sure that you are actually being paid for the work you do. Invoices are also a good discipline, so have a detailed template that is common to all clients and which ensures you always include all the relevant information as detailed above.

Invoices are an important contractual document and need to look professional, so, as well as the client’s address, yours, and your account details for payment, the document should also include payment terms. These should include your payment lead time, as translators will generally be aware, some European countries are accustomed to much longer payment times than the usual UK 30 days end of month (this can significantly skew cash-flow predictability of course). Even so it is worth including a clause specifying your desired payment date. Debtor days may vary drastically (a 90-day term is not uncommon in France, for example) so bear in mind this factor.

It is also important to include clauses limiting liability for any errors or omissions in your work to the amount paid for the translation itself – although professional indemnity insurance is also a very good idea. A clause covering vexatious complaints is also recommended (stating that time spent investigating unfounded and vexatious complaints concerning quality will be charged at a given rate, and essential criteria for substantiating a complaint). Similarly a clause should stipulate that costs and time incurred pursuing late, or non-payments, will be charged to the client as well as interest for late payment.

Pricing

There are various views on the approach to pricing, but the best advice is probably to remain aware of the range of rates typically charged, as reflected in annual rates surveys, and to adjust pricing accordingly. Differential pricing is acceptable, so long as one keeps track of what is charged for each client. It is perfectly acceptable to increase rates from time to time, but some clients who have been good payers and provided plenty of work, may insist on a specific rate – naturally there is an algorithm as to what you will find acceptable. A minimum charge may also be prohibitive, and if your administrative procedures are sound, this may be an irrelevance.


Balance the value of increasing your price against the potential loss of business – in the costed example above, increasing the price for 5,986 words from £0.085/word to £0.09/word will increase your income over four days from £508.81 to £538.74 (or a difference of £29.93), but if your clients then decided to allocate work to cheaper translators the resultant loss may be considerable. Conversely if your annual pre-tax revenue were £50,881, increasing your rate across the board from £0.085 to £0.09/word would earn you £2,993 p.a. more (assuming the increase did not actually lose you trade). Sadly you will not usually be able to know if you would have had more work by keeping your rates at the same level, and at that level of income, £2,993 is not a big difference. On an income of half that (£25,440 p.a.) the difference is barely £1,500.

Translation memory is an issue here, and, by definition, a double-edged sword. On the one hand, offering the use of a client's preferred TM package may be the key to receiving a certain volume of work of this kind, but the downside is that the TM is then working against the translator in that the potential earnings/word is reduced (by definition). It is very important to be realistic and objective about the time spent at a rate of say, 0.03 euros/word, as against 0.09 given what is effectively post-editing work within a certain user interface.

Translating 600 words an hour at €0.09/source word = €54, post-editing 1200 words at €0.03/source word (as paid by the client) is still better than nothing, but will only earn €36 in comparison. Then there is the loading of terminologies, and other TM-related tasks that one might otherwise overlook.

Quality and after-sales

As all translators know very well, the worst nightmare is to receive a client complaint. It is of course best to avoid this by ensuring that you are confident that the work you do is of an exemplary standard, to the very best of your abilities. However, once in a while it is likely that one will receive a complaint. The worst kind of complaint, in my experience, often involves an over-confident non-native client or editor at the client's end, who thinks they know the target language better than you do, and you receive a plethora of complicated, and



largely futile edits upon which you are expected to comment, but which overall have introduced so many fundamental errors that it would render the client a laughing stock, if they actually published the text in its 'revised' format.

The sad fact is that reputationally, and commercially, one must address such complaints in detail – and quickly. It may equally fall at a profoundly inconvenient time, but you still have to do this. It is vitally important to be fair but firm, and there is an aspect of client education involved here. This kind of vexatious and profoundly time-wasting complaint has to be quashed, and clients must understand that it is unacceptable to do this. If you can, you should also charge for the time you spend on the most egregiously fallacious of these claims.

However, if you have genuinely made a mistake then it is clearly the professional thing to own up to it quickly and to apologise and rectify the mistake, while re-checking the job thoroughly, if necessary applying a small or proportionate reduction to the invoice.


But sometimes the situation is irretrievable. I once lost all work from a relatively lucrative client having been commissioned to translate a relatively short marketing letter. However, neither the end client or the agency had stipulated that they wanted a US English (and not a UK

English) version. The new, 'edited' and 'corrected' text I was sent to show me the error of my ways, was a. profoundly illiterate, b. included numerous direct translation errors (one quite serious) and c. the person responsible had even – unforgivably – cut and pasted the paragraphs of the letter into a different order, and also d. added, and omitted material – (my translation having also been allegedly too “mot à mot”!) Needless to say, despite my advice and protestations, they preferred this illiterate version, and I never heard from the client again, even despite diplomatic overtures. The episode probably cost me several thousands of pounds in lost work.

Scheduling

As is clearly established, the volume of work for translation or interpreting assignments received is not very predictable or much within the control of the translator or interpreter. It is particularly important therefore to be on top of the volume of work divided over time. Logically this means negotiating the longest deadlines where possible, as this 'flattens the curve' of demand, leaving space for adjustment if additional work comes in.

From my perspective an essential discipline is always, having negotiated the longest deadline possible, to divide the number of words over the time available and to be able to re-schedule.



For example, you have a 10,000 word translation and five full days in which to deliver, realistically allow for 2500 words a day over four days and at least part of day five for proof-reading. It is then essential to stick rigidly to the 2500 words a day as a minimum translated output.

The ideal would be 3000 words a day and completing the job a day early. The alternative means that an additional project could be accepted, amounting to 2000 words, which could be inserted into day one, and delivered on day two, thus allowing for 1000 of the 10,000 word job on day one too, and then 3000 words a day to ensure delivery as planned on day five, and so on.

Having a realistic, known, daily output requirement, and consistently beating it, is the key to successful 'curve-flattening' and 'top-slicing' principles that will enable you always to hit deadlines, and still take on extra work, within reason. The key is always to know exactly how many words a day you have to do, and then at the very least, stick rigidly to achieving it.

Realistically too, as most translators know, it is generally good to be able to put in long hours from time to time, to ensure deadlines are met, and longer, more lucrative jobs are not 'blocked out' by smaller, albeit urgent projects, that may also prove technically demanding in

the short term. However, if you find yourself working until midnight every day over a protracted period, then you know that something must be going wrong – apart from anything else, if you are tired you will make mistakes.

Never put yourself in the 'perfect storm' position where you have accidentally taken on too much work, you are up against the wire with your tax return details, cannot find key documents, perhaps also have some complex, personal, non-work/family matters to deal with, and, also, heaven forbid, have to deal with a client complaint, all at the same time.

As an anecdotal illustration, I used to have a client who I came to think of as "got to perfect, urgent, for a friend" because most of his projects were exactly that: last-minute, rushed jobs, with largely unrealistic deadlines, but with premium quality expectations, and usually, as he would tell me, for a very special, or personal client. Up to a point I was willing, and able to accommodate this client, but ultimately, as this last-minute, tight deadline, premium quality approach became the norm, and the volumes, niche subject matter, and deadlines became more unrealistic, these projects were becoming disruptive, and for relatively much less volume and margin than the other clients, who seemed better able to plan their work. So in the end I actually 'sacked' this client, who was becoming a liability. It is the only time I have ever done this, but I am glad that I did.

Tax

The first consideration is that income of only £1000 a year or more is the threshold at which you must register with HMRC as a sole trader. Also – for 2020, if your income is over £85,000 a year, you must register for VAT (see below for more on this subject).

The current tax bands (2020) are:

Earnings below personal allowance (£12,500)	No income tax payable
Basic rate (£12,501- £50,000)	20%
Higher rate (£50,001- £150,000)	40%
Additional rate (Over £150,000)	45%

It is very worthwhile to have an accountant to submit tax returns for you. There are a number of good reasons for this. The most important being that accountants must comply with certain standards, including in the relationship with HMRC, and this is a very reassuring aspect to have working 'on your side'. Some people may enjoy the challenge of completing a tax form, including on-line submissions, but many also find the process extremely unintuitive, and from any perspective plain English rubric is still an issue for the non-expert in tackling these forms.

Another good reason is that for c. £380 a year (also a deductible expense) you have the benefit of the accountant's experience of what is a taxable expenditure and to what extent, and it is a fact that 90% of the time the costly operation of HMRC revenue collection tends to give those who use accountants the benefit of the doubt, given the assumption of professional expertise and standards of accuracy expected of accountants.

Importantly, the accountant will also mesh your language business to some extent with other financial context that will be to your advantage (for example money you pay into your pension, the possible options for registering for VAT, other income, savings and investments you might have – and ideally this aspect should be complemented by advice from a good professionally qualified and experienced Independent Financial Adviser.) This still does not exempt you from keeping accurate and detailed records, and your accountant cannot of course extrapolate based on information they have not received from you.

Lastly, it is very likely that an accountant will save you money, and based on your best and most complete annual statement of earnings and expenditures, will help to ensure that you are not accidentally (e.g. because of a misunderstanding of the tax form, or some other omission) or avoidably paying too much tax.

It is important to have saved approximately 25% of your revenue progressively as you go through the year, so that you are in a position to meet the regular tax bills and payments on account to HMRC due by 31 July and 31 January. If you cannot do this – and it is a discipline – you are unfortunately living beyond your financial means (on that basis alone). Always remember, as a reality (and sanity) check, that a good working day that earns you say £350 for your 7-8 hours work, will be reduced, however resourceful your accountant may be, by c. 25% in the actual amount after tax – to £262.50, with £87.50 put by to pay the tax bill.

Pension and savings. National Insurance Contributions (NICs)

As well as the discipline (and it is a discipline) of retaining sufficient funds from your profits to pay taxes on 31 January and 31 July each year, no freelance should neglect the importance of savings and a pension. The earlier you start saving the better. Important and relatively generous tax relief is also available on this – basically 10% of your income can be contributed tax free to a pension – see: <https://www.gov.uk/tax-on-your-private-pension>. It is recommended that good advice is sought from a reputable independent financial adviser. This is a specialist field of investment, and very different outcomes can be achieved depending on the quality of the advice you receive. Shopping around is highly recommended.

National Insurance Contributions (NICs) on the other hand, will be deducted in any case on the basis of your tax return, although if you believe you have not contributed as much as you could have in terms of NICs (which will affect the total amount of State pension you receive), you can check this at <https://www.gov.uk/voluntary-national-insurance-contributions/deadlines>, and, if you can, and if you consider it necessary, these contributions can be topped up to the maximum levels, and you can do so retrospectively for up to six years (e.g. you would have until 05/04/21 to do so for any gaps dating back to the 2014/15 tax year).

Class 2 NICs

For the 2020/21 tax year, you will need to pay Class 2 National Insurance if your business profit is over £6,475 (£6,365 in 2019/20). This amount is known as the ‘Small Profits Threshold.’

The Class 2 rate per week is £3.05, which you need to pay annually to HMRC through the Self-Assessment process. So, your Self-Assessment liability to HMRC includes the Class 2 NIC of £158.60 for the tax year (up from £156.00 in 2019/20).

No National Insurance is payable on any profit up to the ‘Small Profits Threshold’.

Class 4 NICs

For the 2020/21 tax year, you will need to pay Class 4 National Insurance if your business profit is over £9,500. This amount is known as the 'Lower Profits Limit' (£8,632 in 2019/20).

If your profits are £9,500 or more a year, you pay Class 4 NICs of:

- 9% on profits between £9,500 and £50,000
- 2% on profits over £50,000.

The £50,000 amount is known as the 'Upper Profits limit'.

Class 4 NICs are now calculated annually by HMRC as part of your Self-Assessment. Your Self-Assessment liability will include a calculation based on the amount of profit made by your sole trader business.

VAT

As stated above, if your income is £85,000 or above (2020/21 figures), you will need to register for VAT, however you can voluntarily register for VAT if you consider this to be an advantage to you. Given the only moderate benefit of being able to reclaim VAT on goods (since translators and interpreters have few capital costs and a generally low level of expenses), the administrative burden of filing VAT returns and additional accountancy costs will normally mean that this is not worthwhile. Furthermore, it is generally accepted by European clients

and agencies that a UK-based individual translator or interpreter is exempt from VAT. With the multiple uncertainties of Brexit, this may change, and lobbying has taken place in some quarters to preserve the current position, but professional linguists need to be aware that the current, seemingly rational position may not last indefinitely.

Mortgages

Since, by definition, your income as a freelance is unpredictable, this must be taken into consideration, because a majority of lenders have an aggressively risk-averse approach that penalises the self-employed very badly. A number of lenders 'specialise' in freelance clients, but here too, the independent advice of a good IFA may be invaluable.

Other work

There is a definite appeal to "portfolio" careers, and professional linguists often combine a career in this sector with other work, for example, its flexibility works well in combination with additional simultaneous careers in academia, music, or other areas where work is intermittent or where income needs to be supplemented. Where this occurs, it is important to bear in mind that revenue for tax thresholds and other allowances need to take into account incomes from all sources. Your accountant and IFA will also be able to provide advice on this aspect.

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Contact

CIOL | Chartered Institute of Linguists
7th Floor, 167 Fleet Street
London EC4A 2EA
United Kingdom
+44 (0)20 7940 3100
info@ciol.org.uk

