

Preparing for Tax Season

With the end of the year approaching, it's a good time to get organized now for Tax Day.

The first thing you need to determine is what category you fall into as a taxpayer. A licensee may own his or her own business, work for someone else at their shop, or rent a booth and function as an independent contractor. One thing all these possibilities share with each other and all jobs is a tax obligation because all income is taxable, according to the U.S. Internal Revenue Service (IRS).

If you're directly employed by a shop, then your situation is likely familiar to you. Your employer will record your pay on a W-2 Wage and Tax Statement that you will receive at the end of the calendar year. It is the responsibility of the employee to report their tips to the employer for inclusion on the W-2.

If you're a shop owner, then you are responsible for recording all income and expenses at your salon, as well as the wages of any employees and taxes they have paid. You will also need to collect and pay any sales taxes on product sales.

If you're a booth renter, you will be responsible for recording all income and expenses as well as the filing of returns and payment of taxes related to your business.

The IRS has a publication that focuses on tax information for the beauty industry. It can be downloaded at <http://www.irs.gov/pub/irs-pdf/p4902.pdf>. Be aware that as a business owner you may also be responsible for state and local taxes, in addition to your federal obligation. For more information, visit the California Tax Information Center at www.taxes.ca.gov.

While no one likes to pay taxes, there are benefits to reporting one's income accurately. These benefits include:

- An improved financial profile for loans based on earnings, such as mortgage and auto loans;
- Greater Social Security, Medicare, Workers' Compensation and unemployment benefits;
- Possibly qualifying for the Earned Income Tax Credit.

The penalties for failing to fulfill your federal and state tax obligation can be significant. For instance, as of 2012, the Department of Consumer Affairs (DCA) and its constituent entities such as the BBC are required to deny an application for licensure and to suspend the license/certificate/registration of any applicant or licensee who appears on the certified lists of top 500 tax delinquencies over \$100,000 compiled by the Franchise Tax Board (FTB) or Board of Equalization (BOE).

Once it has been determined that an applicant or a licensee is on a certified list, the applicant or licensee has 90 days from the issuance of a preliminary notice of suspension to either satisfy all outstanding tax obligations or enter into a payment installment program with the FTB or BOE. Any such person who fails to come into compliance will have his/her license denied or suspended until the Board, Bureau, Commission or Committee they have applied to receives a

release from the FTB or BOE. The form for requesting a release will be included with the preliminary notice of suspension.

Moreover, the law prohibits any of DCA's Boards, Bureaus, Commission or Committees from refunding any money paid for the issuance or renewal of a license where the license is denied or suspended as required by AB 1424.

The FTB and BOE are currently expanding the certified lists from 250 to 500, but you can check if you are currently on the FTB's certified list at: https://www.ftb.ca.gov/aboutFTB/Delinquent_Taxpayers.shtml or the BOE's certified list at: www.boe.ca.gov/cgi-bin/deliq.cgi. If you locate your name on either list, please call the FTB at 888-426-8555 or the BOE at 916-323-8624.