Understanding sales tax responsibilities as a dance studio owner

Suzanne: Welcome, everyone. This is a DanceStudioOwner.com members-only webinar. Today our topic is about sales tax responsibilities for dance studio owners, with our special guest Jessica Sheitler of Financial Groove.

I’m really excited about Jessica being back as an expert because she is someone who really knows not only the financial world of business owners, but she completely understands what it’s like for us as dance studio owners. She has a great background in arts and dance.

I’m always in awe of her ability to make sense of complex issues for us as dance studio owners. I don’t have a bone of accounting in my body, so she makes it a lot easier for me.

Jessica, we’re so glad you’re here.

Jessica: Thank you so much. I was partially dreading it, but partially excited to talk about this, because it’s one of those things that seems to eclipse everyone. That’s pretty much all businesses, to be honest.

When dance studio owners don’t feel comfortable with sales tax, they’re definitely not alone. I feel like it’s probably one of the most misunderstood aspects of running a dance studio, honestly. There’s very good reason for that.

It’s different in every single state. Even within your state, it can be different within your county and your city. On forums like this, it makes it very difficult because obviously dance studio owner membership is a place that people go for resources and to get answers.

The conferences we attend are usually national and the places they go to get answers. It’s difficult to get those answers specifically for dance studios because it’s so broad and so elusive and there’s so much gray area.

Suzanne: We’re coming up at the end of a calendar year financially, but also some of you guys are ordering your dance recital uniforms or your competition costumes or thinking about selling more products in your dance shop.

I figured, why not bring to you one of these subjects where if someone is listening to this, you’re not alone in having questions and all that.

Any place to start is by getting her information. We’re really excited about the information she’s going to share today.
Jessica: I think the biggest thing here is that it’s really with sales tax to live in a land of ignorance is bliss. I think where taxes are concerned, we think about the IRS. They don’t deal with sales taxes. I see it as not nearly as intimidating.

The purpose of this, like you just mentioned, is to get people on the right track. It’s not to scare you. There is going to be a lot of information there that might make you think, “Oh boy, I am really messing up.”

The point is to get you on the right track and get you the right answers, or at least put you on the right track to find these answers.

Basically, it’s easy to turn a blind eye to something that you don’t understand; even more so with sales tax because it doesn’t have an easy straightforward answer.

A lot of people will come in and ask, “Do I have to charge sales tax on costumes?” That’s probably the most frequent one.

The answer is it depends. The answer actually depends on what state you’re in, and then how costumes are treated in your state. From there, I actually haven’t seen many people do much with sales tax, unfortunately, until they have to come to terms with it because they are being audited.

I think Suzanne actually sent me over a question from a member who actually experienced the sales tax audit and was like, “I’m in the worst scenario ever!” I think that’s more common than not, honestly.

Suzanne: I’ve gotten these questions from people like either, “I had no idea,” or “I didn’t know because of how we were using it.”

And that’s what you’re going to get into: the explanation of how we’re using costumes. It is not so cut-and-dried. In particular, and you could probably echo this, is that the IRS is cracking down on how dance studio owners are classifying employees. We could do a whole other webinar on that and how people are not properly withholding them.

But I see that too, that dance studio owners are being subjected to audits form this more local thing. If knowledge is power, then taking action on it is your next step.

Again, to echo your statement, we are not here to scare you. We are here to empower you to be in the leadership role for your business.

Jessica: Absolutely. I said that, but sales tax is one of the misunderstood aspects of being a dance studio owner. Do you have to charge sales tax? I kind of alluded to that earlier. It depends.

What does it depend on? We know that it depends on your state, but what does that mean? In each state, they have different laws on what they consider to be taxable.

I think our common knowledge tells us that tangible items are taxable. What that means is that something you can touch, taste, feel, tangible items. My shoe is a tangible item, but my service of me giving you my knowledge is not tangible. I can’t touch it.
The idea of feeling, we really want to think about, can I feel it with my hand? Because as artists we feel lots of stuff. Don’t get confused on feel.

That’s the basic idea of what is taxable. Then from there each state changes it based on their laws. There’s actually states that have no sales tax. Hopefully the people in those states know they’re good to go. They’re probably not listening to this.

Just for your knowledge, there are states that have no sales tax.

Suzanne: We’re in New Hampshire and we don’t have any sales tax. That’s why I always try to advice our members. We are one of those states where we don’t have any sales tax.

I always seek out the experts such as yourself because, thankfully, I don’t have that complexity in our business. We have plenty of others. This is the topic that brought me over here. I’ll let you keep going.

Jessica: There are five states. New Hampshire is one, then Alaska, Montana, Oregon and Delaware. If you’re listening and you’re from those states, this will just be a fun conversation for you, but the sales tax does not affect you at all, which is kind of cool.

For the rest of us in the rest of the country, I’m here in Las Vegas Nevada. I get good weather, but I do have to deal with sales tax. Let’s see here.

What I’d like to look at is the major categories where sales tax can affect you. Since I can’t give exact answers, I’m going to try and give general things to look at.

Tuition is something you would not think of looking at, because it’s not something tangible. But there are states where your tuition to your student is subject to sales tax. They’re very rare. There are six states.

I thought I would list those off because that is something very important to know. Unfortunately, that’s a lot of money. Those states are Iowa, New Mexico, West Virginia, South Dakota, Hawaii and in some cases New Jersey.

That is something that, if I read off your state and you weren’t aware of that, you really want to dig into that more and do some research and see if that does in fact affect you on tuition.

The other major one is costumes, which seems to be what always comes up. The biggest question I keep getting is, “If I already paid the sales tax to the costume company before the costumes came to me, do I still need to charge my students sales tax?”

That answer is actually different from state to state. 20 out of 50 say that you still have to pay the sales tax if you already paid it once, which means you’re forced to pay it twice. That one hurts a little, but there is a way around that.

That’s in signing up for a resale certificate. That’s as simple as going to your state’s website. Most of them do it on the web. In fact, every one that I looked into does it on the web.
Basically, you just sign up and say, “I need to be a wholesaler,” or “I’m going to be selling things to people, to consumers, to customers where I’m going to charge sales tax.”

What that does, if you’re familiar with the idea of wholesale, that means you don’t have to pay the tax to your costume company. Then you aren’t having to pay that tax twice in the long-term.

But if you don’t have that resale certificate, you still have to pay the sales tax to the costume company and then charge it again to your students, and the students have to pay it again.

That’s something to look out for. The other aspect is, if your costume company doesn’t charge you sales tax, they just charge you a wholesale amount, then you have to charge sales tax to your students.

Again, this is case-by-case basis based on your state. 39 out of 50 states say you have to charge sales tax on those costumes. My experience is that most of our studio owners are probably not doing that.

That’s a big exclamation point for everybody.

**Suzanne:** Let me circle back to the whole thing, because I’m learning as I go through. If someone is listening to this and they haven’t taken the time to go get that resale certificate, is there anything that would concern them about getting it?

Can they just start from scratch and go apply for it with their own tax ID number? Is it pretty quick?

**Jessica:** Depending on your state, yes. It is quite quick. If your state has a nice online website, then it’s a matter of maybe 5 minutes. Otherwise, some of them make you print out a PDF and send it in.

It’s really a simple form that generally asks for name, address, what you are going to sell, and how much you think you’re going to sell.

If you said, “I’m a dance studio; I’m going to sell costumes to my students; and I think I’m going to do about $50,000 worth of costume sales for the year,” what that does is tell the state how often you should file for sales tax.

They’re not holding you to that number in any way, so that number tends to intimidate people. Basically, it’s just saying, “If you’re doing a lot of sales, we’re going to make you report this a lot more often.”

But if you’re only doing $50,000 in a given year, you’re probably only going to report it every quarter or every three months. Some people are like, “I’m barely doing anything that needs sales tax,” so they make you do it once a year.

That’s how they determine how often you actually have to report to your state. That has to do with the resale certificate. This is a point that they audit on a lot. They actually look for resale certificates.
If you are in a state that has sales tax, go get one. It’s the easiest thing ever. It’s not a big deal. Don’t be afraid like, “Man, I haven’t been charging sales tax for the last 10 years and I should have been, and now I’m signing up.”

Are they going to look back at it? Most likely not. If they are going to look back at it, they’re going to look back at it for some other reason having nothing to do with your resale certificate application.

Don’t not do it because you’re afraid they’ll look back. Just get on the right track.

The other things we look at that are potentially subject to sales tax are going to be dancewear. Dancewear functions almost exactly the same as the costumes.

Then things people don’t think about is vending. Snacks and water are a lot of times subject to sales tax from your vending machine or even if you’re just selling it at the counter and you have a case underneath the desk.

It’s annoying and it’s little, but it does exist. The other thing I would like to bring up is recital. A lot of times in a lot of states, if you charge for tickets, they will charge you sales tax on a ticket price.

But if you charge a recital fee, they may not. That’s not a blanket statement, but that’s the majority of states that I spoke with. In doing your research with this, you can help yourself not have to deal with your sales tax reporting just by changing the label you put on things or changing how you function.

That’s something to keep in mind as well. Then the other thing we often forget about is all that stuff we sell at recitals: DVD’s, T-shirts, stuffed animals, flowers, a lot of that ends up being subject to sales tax.

A lot of dance studios think, “I’m a service business and I don’t really have to deal with sales tax.” What it ends up looking like from this list is, “Oh gosh, I dabble in a little bit of all of this.”

We really do need to think about it. It’s a pain in the butt, but once you have the calculation down, it’s really not so bad.

What I’d like to do is move on and just pretend we’re in a state where you do have to pay sales tax on costumes. Let’s look at how that actually works. If you can see on the slides, I have kind of an example set up.

We’re going to go with one fairly cheap costume. The costume company charges you $20 when you buy it from their catalog or website, and you do not pay them any sales tax. That’s $20 that you paid to them.

Then that arrives at the dance studio. You’ve paid the $20 out to the costume company, then you’re going to put your upcharge or however you do that. I’m doing simple math here. You’re going to put an upcharge of $5 on it.
Now your price is $25 that you’re charging the student. On that total price, the amount that you’re going to sell the costume for is what you’re going to charge the sales tax on. You’ll charge $25 times your sales tax percentage for your state.

I’m doing easy math, so for my example I’m using 5 percent. It’s going to be $25 plus $1.25 in tax. $26.25 is what would be due for the student. I think sometimes people get confused about what is the purchase price and what am I selling it for.

Sales tax, like its very name, is on the amount that you’re selling it for, the sale price. If you are putting an upcharge on something, you have to include that. It’s not about what you actually paid back to the costume company.

Suzanne: If you can pause for a second, we have a question coming in from the web from one of our members. Can you give another example? She asks, if I order a costume that costs $50 from the vendor and I sell it for $75, she’s in a state that taxes 7.25 percent. What should she pay as the sales tax?

She’s charging a flat fee, so you have to build it out from behind that. How do you arrive at that?

Jessica: If you’re charging a flat fee to your students, then you have to back it out. I didn’t put this in my slides. You said the price was $75?

Suzanne: She bought it for $50 from the costume manufacturer. She sells it for $75 to the student. Sales tax is 7.25 percent.

Jessica: To find out the break, you are going to take $75 and you are going to divide it by 1.0, then your sales tax percentage, but you drop the decimal point. That’s kind of complicated. Multiply the sale price by 1.0725. That’s going to give you your answer.

It might turn out that your costume price was actually $72 and sales tax was $3, which is not good math. That’s how you back it out. It’s 1.0 and then the rest of the digits that are your tax percentage.

Suzanne: Let’s just do the math. $75 divided by 1.0725. That comes out to $69.93.

Jessica: That’s the sale price of the costume. The rest of that above and beyond ($75 minus the $69.93) is your sales tax.

Suzanne: So technically $5.07 of that sale price should be going to her county for sales tax.

Jessica: Yes. Let me move on to the next slide, because we can interchange these numbers here. In my example, we collected $26.25. $1.25 becomes ‘sales tax payable’. That’s going to go in a bill that you’re going to pay to your state.

$25 is going to go in your accounting or your books as costume income. In this example that we just had from the question, the $69.93 is going to be your costume income, and the $5.07 is going to be your sales tax payable.
In your books, you do not want to put that entire $75 to your income, because you didn’t earn the sales tax. You only earned $69.93 in income.

**Suzanne:** We’ve had these conversations before, where someone says it feels like money gone before it’s even gone. But then you don’t want to over report it.

Let’s say you have 100 students and you do times $5.07. That’s $507 of revenue that you’re getting taxed on somewhere regardless.

**Jessica:** In your books, you want to separate that out right away. A lot of these state sales tax codes say that you have to separate it out, that you can’t pretend that you’re not charging sales tax.

Definitely, you want to separate that out. Sales tax is what’s called a trust fund tax. I don’t really know why they call it that, other than that you’re trusting them to deliver the money.

Basically, you’re just the pizza delivery boy on the sales tax. You’re picking it up from your student and you’re giving it to the government. Because you’re a business, you get the lovely privilege of being the go-between on that.

**Suzanne:** The other alternative would be to say, if someone is listening to this and they’re like, “I don’t want to have to deal with the flat fee of having to figure it out,” moving forward next year she could say now it’s $70 times the state tax of 7.25. It would be $70 times .0725, correct?

**Jessica:** Yes, to make the percentage.

**Suzanne:** It still goes back to adding that $5.07 on to the price.

**Jessica:** There are two parts to it. There’s this initial part that we just kind of talked about, where you are in your books, or maybe in a bank account. You set aside that $5 you made on each costume.

At the end of the day, when you file with the state to report your sales tax, which like I said could be monthly, could be quarterly. What they’re going to look for is your total costume sales. That’s why you want to separate that $69 for the costume income.

It’s like, this month I took in a total of $500 of costume income times that 7.25 percent on the form for the state is going to be how much you pay to the state.

Your goal obviously is to make that zero. What I took for sales tax from my students is exactly what I pay into the state. At the end of the day when you’re filing with the state, it’s one large calculation rather than adding up all those little $5 sales.

**Suzanne:** That makes sense. You take the total sale and do it like that. If someone is listening to this, from a federal level you’re only being taxed after expenses on that net amount, the $69 and some odd cents, correct?

**Jessica:** Yes. That’s always what should be happening. That’s not income for you so you don’t have to pay income tax on it. The sales tax, like I said before, is just passing on through.
For people who know accounting term, that thing I said where it’s sales tax payable is a label we put on things to say, “This is sales tax that I have to pay in the future.”

It kind of gets put in a separate account, which is called the liability account. It never touches your income and it never touches your expenses. It just passes on through and it’s something you have to deal with for the state.

It doesn’t actually affect your federal tax return. If you are including that in your income, then you’re paying income tax you don’t need to pay.

I’m going to move on to another aspect of sales tax, which is called use tax, unless we have any other questions on the sales tax portion.

Suzanne: Not now. Anyone who is listening in on the web can certainly punch in their questions online. Jill and I are monitoring those from the dialogue box. Nothing right this moment. Go ahead.

Jessica: Sales tax is something we’ve all heard of, and hopefully now we all have a better understanding of how we function within it. But there are a couple other ways studio owners are affected by state sales tax.

They just have different terms. The biggest one is use tax. This came about because we all got on the internet and started buying things from Amazon and we weren’t just staying in our own state anymore.

I’m sure you might have seen things on the news where laws are changing and stuff like that. It does actually affect you. What use tax is, it is the same thing as sales tax, except you end up using the product as the business owner rather than selling it to someone.

I’m going to stop your thought process for a second. Let’s look at this example. If the dancewear company charges you $30 and no sales tax is paid and you’re going to keep that sweatshirt as the studio owner and wear it and ‘use’ it, the reason you are looking at use tax is, number one, because you are using it, but also because you didn’t pay sales tax on it.

When something tangible like dancewear is sold, they have to collect sales tax somewhere. If the buck is stopping at you at the studio and you are not selling it to the student, then they need to collect that if it wasn’t already collected by the dancewear company.

Hopefully I’m explaining that okay. Let’s get going with an example so hopefully it will help.

Suzanne: One thing that comes to mind is if you bought your faculty T-shirts that say ‘I love to dance’ and they all were wearing them around, does it only apply to businesses who are buying those products?

Jessica: Actually, no. The interesting thing, and states are still trying to figure out how to collect on this, it affects businesses the most. For people, individuals just walking around in society, some states are even putting it on their year-end tax return to try to get the use tax.
I don’t think the states have quite figured out how to collect this use tax from people besides businesses. But for the sake of the businesses, it’s only if that sales tax was not already charged.

If the sales tax was already charged, you don’t have to worry about it. Usually that happens when you’re buying on the internet.

If we pay $30 for this sweatshirt from the dancewear company and you do not pay sales tax, it arrives at the dance studio and you pay the $30 to the dancewear company. If you’re going to keep this dancewear and use it yourself, since no sales tax was paid and the dancewear is a tangible object, I’m going to do a quick asterisk, basically that dancewear is subject to sales tax in your state.

If it’s something that your state requires you to pay sales tax on, then it counts here. Then the dancewear is being used instead of being sold, so use tax is due.

The calculation would be the $30 you paid, times the percentage rate for your state, which in my example is 5 percent. You would have to pay $1.50 to your state.

Suzanne: That’s interesting. That sounds like something that’s very squirrely for them to try to collect on, doesn’t it?

Jessica: It sure is. I’ve sat in a lot of audits in the last year and a half where this is all they’re looking for. People have sales tax down and they’re just looking to see if you pay use tax. They make you pull out every receipt of everything you ever bought, and they check if sales tax has been paid on those receipts.

Suzanne: How do you know when you’re checking things out? Let’s say you’re shopping on a site that sells these. How would you know if you’re paying the sales tax or not?

Jessica: It is obvious whether or not you’re paying sales tax. It should be a line item on your receipt or invoice. That’s why when I said earlier that most states require you to separate out the costume income from the sales tax, that’s why they do that.

If you didn’t separate that out and you paid it into the sales tax anyway, then your poor student has to pay the use tax on it because you can’t tell that the use tax was paid on it.

Use tax is not highly talked about, but it is what I’m seeing most people owe on when they get audited. Sales tax is often called sales and use tax. The biggest different here is whether you’re selling the product or using the product.

That’s something you really want to keep track of. To be honest, it doesn’t happen that often. Most of these major companies, Amazon being a prime example, are forced to charge you sales tax.

But every once in a while you’ll have a case where the state that they’re in is different than yours so they don’t charge you sales tax. In that case, you have to report the use tax.

That’s the state’s way of getting their money.
Suzanne: For anyone listening, our members work so hard to get every dollar into our bank account. We brought you on here because I want to empower our members. This isn’t so you can rush out and fix everything overnight.

If anything, it’s for you to be aware of what you are subject to as a business owner. I don’t want to have anyone listening today be like, “Forget it. I can’t figure it out.”

That’s why Jessica is one of our contributors here. She has an understanding to be a resource for people. She still has a couple points to talk about. I really want everyone listening to this to not feel discouraged or overwhelmed if you’re in a place like, “I’ve never done this before,” or “I’m going to be in so much trouble.”

It’s really just for your information so you’re empowered. There’s a lot of information that goes on the internet that’s incorrect. That’s why we brought Jessica here: to really clear that up.

You have sat through audits, and I want nothing more than to help dance studio owners have financial health. Sometimes what comes out of these conversations, even in my own business, is “We’re not properly riving things.”

Because we pay every single one of our teachers as employees, that’s expensive. It is expensive. That’s why we have those conversations: “We’re going to pay them properly, and to classify them we have to charge appropriately.”

We don’t have to apologize to parents. That’s what it costs. We’re not marking up things so we can take some fancy vacation. We’re just trying to cover costs.

Where would someone begin? Where would they start if they’ve never done this before?

We talked about getting the resale certificate. What do you do first?

Jessica: Why don’t I come back to Tax Nexus if we have time for it? Basically, where do you go for answers?

The internet has messed this thing up to cause us to have use tax, but the internet has also given us state governments with websites, which is awesome.

Your first stop is the state government’s website. Your best Google is probably your state name with department of taxation or department of revenue. That’s going to take you to the right state agency to come up with your sales tax answers.

On the website there are lots of answers there for you. It’s probably super confusing. Don’t be afraid to pick up the phone and call the contact information or call an agent to get the answers you need.

What they’re going to post on their website is going to be legal jargon, basically. Some states break it down a little bit easier for you. I don’t know if I’ve ever seen a state that talks about costumes specifically or a recital specifically.
Don’t be afraid to pick up the phone and ask them specifically what that is. They will probably not know what a recital is, so you will probably have to explain it. That’s okay because that’s going to give them more information.

Suzanne: I had a question. You had alluded to this earlier. I’m not trying to not pay taxes or anything, but I’m trying to get a clear answer. If a studio owner renamed a recital fee and that recital fee included a costume, some tickets and all that, if it was called a recital fee that happened to include those items, is it still subject to sales tax?

Jessica: I asked a lot of states this question because I think it’s a very gray area. I’ll be honest with you, all of the state representatives really didn’t like it. They said, “I think that will confuse the auditor.”

Fine. What we’re here for is we want to follow the law, but there’s no reason why we can’t structure our business and structure the way that we sell things so that you make the most money and you don’t pay as much tax. That’s okay to do that.

That’s the purpose of this. Let’s tango with the way things are. Here’s the law. Let me work with them.

If you do combine all of those things, most of the time if you put the costume in it, it throws it into a tizzy. If it’s a recital fee for production costs and admission and things like that, most of the time they are okay with letting that pass through and not be subject to sales tax.

But once the costume was in there, most of the states said you need to separate the costume portion out and that will still be subject to sales tax. Some of them even said, if the costume is in there, then the whole thing is subject to sales tax.

You just have to be very careful. Again, each state treats it differently. I wanted to talk about that a little bit with where you go for answers. When I was approached about this, I was like, “What am I going to talk about?”

Every answer is, “It depends.” Everything I say could be true for you but not true for somebody else.

I was really nervous about it. But the more I thought about what went into all of this and how unique a dance studio is, and what you just mentioned with the unique ways we can structure the way we sell things that maybe other business can’t.

If they’re selling widgets over the internet, there’s not a whole lot they can do. But there’s a whole lot of ways that sales tax can be treated in your business and sales can be treated.

I got really motivated to get to the bottom of this. I know the sales tax really well in the states where I have clients. We do have clients all over the states, but not in every one of the 50 states.
I decided to get my staff members on it. We called every single one of the 50 states and asked them 15-20 questions I had come up with ahead of time. We all pretended that we were opening a dance studio brand new.

We were like, “What if I decided to lump it all together into a recital fee with costume and everything?”

We posed all these questions, even to the extent of, “What if I have to go buy ribbon and fabric and I’m constructing the costume? Or what if the students construct the costume and not me?”

We went through all these what-if scenarios and asked every single one of the 50 states all these questions. Some of the states were awesome, and some of them were very difficult.

We spent about an hour average on the phone with each state. What I did, and this is all because I was asked to do this webinar, to be honest, it just snowballed into this research project.

Suzanne: Thanks for doing that. I can’t wait to hear what this is going to mean for our members listening in.

Jessica: What we created is we created a website called SalesTaxForDancers. It’s a web application where you put in your name and address, the state you’re doing business in, and it’s going to give you the answers to all these what-if scenarios that we posed to all these different states.

I put in the state of Nevada, it’s going to say “Your tuition is not subject to sales tax.”

What if the costume company does not charge me sales tax ahead of time? Yes, I do have to pay sales tax.

What if the costume company does charge me sales tax ahead of time? No, I don’t have to pay sales tax on this.

We actually went through all these questions and put it into this website that you can now basically sign up for. It’s $29.95 and it gives you all the answers to these specific questions for dance studios.

We all have Suzanne to thank that this website exists, because she asked me that question and I couldn’t answer it without being like, “It depends.” I’m really happy with that.

Suzanne: Think about what it cost you in time and energy to do that. You of course compiled a huge, awesome resource. Is that on the slide right there, SalesTaxForDancers?

Jessica: salestaxfordancers.financialgroove.com

This at least keeps you off the phone for that extra hour and gets you on track. It has the website you would need to go to for your particular state and all of that.

Always talk to your accountant, talk to your bookkeeper and make sure that everything is in line. These are answers to the what-if scenarios. You may come up with something even more zany than the stuff I made up to ask.
At least this gets you the bottom line on most of the things that are really plaguing us, costumes being a large one. I really dug into them on costumes. I wish we would have recorded some of the calls that we made. It was really funny.

We really did have to explain what a dance studio is, because they don’t know, and what a recital means. The biggest thing that kept us out of the sales tax range was us saying this isn’t a show we want to make money on from the general public; this is just so the parents can see how the kids do.

That’s ultimately what a recital is. But by changing those words, then they were okay with letting the sales tax pass.

Suzanne: So that’s sales tax on the tickets and concessions and stuff?

Jessica: Exactly. I don’t want to super sales pitch, but this is something I’m really proud of and absolutely came about because of this webinar, because I wanted to give the answers but I just couldn’t give all of these specific answers.

That’s another resource that we now have available for you.

Suzanne: I was thinking about how valuable is your time. I learned this the hard way too many times. I know that my God-given talent has absolutely nothing to do with bookkeeping, accounting, or figuring out how to balance a checkbook or compiling any sort of data.

I know how to read spreadsheets and I know how to ask good questions, but for so many of our dance studio owners, your time is so valuable on the dance floor or mentoring your teachers or working with your customers or marketing your business.

Jessica is one of those people who is on our side. She considers well with dance studio owners. If you want to check that out or reach out to her, that would be awesome. Thank you for sharing that.

We have a few minutes before we wrap up. You were going to talk about Tax Nexus. We have some callers and people on the web. If you’re listening on the web you can type in a question or comment. If you’re on the phone, we’ll open it up to any questions here in a moment.

Jessica: Nexus is another thing that is a result of us being on the web, everything being internet-based. It always existed, but not quite to the extent that it is now.

What nexus means is how much presence or business connection you have to another state. Most people are not going to be affected by this, but I think our prime example is on the east coast. The states are so close together that we have studios who have a location in New York and have a location in New Jersey and maybe one in Pennsylvania as well.

When you have presence in different states, that establishes what’s called nexus. You don’t need to remember the term nexus per se. What you do have to remember is that if you have to charge
sales tax on something and you’re in two different states, you have to charge sales tax in those two different states and you are subject to the laws of those two different states.

That’s the main prime example: when you have locations in two different states. They can also establish nexus if you have property in another state. Maybe my dance studio is in New York, but I keep all of my recital T-shirts and costumes in a storage unit over the bridge in New Jersey.

Then you have nexus in New Jersey and would also have to pay sales tax in New Jersey. This nexus thing is super-icky. But realistically, if you just think about where you are located. Are you doing business in more than one state? Then you need to look at the laws for both states.

**Suzanne:** We run into that more often. We’re only three miles from the Massachusetts border and we have a lot of things that cross over between the two different states. Again, in New Hampshire there is no sales tax, which is why people love to shop in New Hampshire.

There are other implications from a business standpoint to consider, so that’s good.

**Jessica:** Another example like you just mentioned, say your studio is located in New Hampshire but you do your show in Massachusetts. What happens with the show in Massachusetts is subject to Massachusetts sales tax.

Just think about that when you’re close to borders. That’s what nexus is. It gets a lot more complicated if you have sales people and employees that go and sell in other states, but I don’t really think that’s the plight of a dance studio owner so much.

It’s more just when you’re close to borders and you have multiple locations and that sort of thing. That’s what nexus is. Realistically, you just have to call two states instead of one state and find out what’s up.

**Suzanne:** I don’t know if that’s good advice or not, but I appreciate the tip. This is great information. If you’re listening in on the phone right now and you have a question for Jessica, you should be able to press *7 on your phone. *7 will allow you to unmute.

You can certainly ask a question, you can give a comment. We’re here to help you. *7, don’t be shy. Any question is a good one. Certainly, if you have a question someone else has it too.

If anyone wants to reach out to you, Jessica, you keep an eye on our discussion forum, but also they can reach out to you at, is it jessica@FinancialGroove.com? How do they reach out to you?

**Jessica:** Our website is www.FinancialGroove.com, which it looks like I cut off on the last slide. On the website is my contact info, if you fill out the contact form on the website.

You can also email info@FinancialGroove.com.

**Suzanne:** Perfect. I saw a couple questions come in on the web. Jill, is there anything else you see?

**Jill:** Let’s just let everybody know that we are going to post the replay and he slides and a transcript. As soon as we can get it done, we’ll get it loaded into DanceStudioOwner.com so you can listen
to the information again and look back at Jessica’s slides and sit down with a cup of coffee and take some time to digest it all.

**Suzanne:** Or a glass of wine, or maybe a bottle. I joke about that lovingly in the sense that this is the not so fun part of running a business, but it’s the mission-critical part that is what’s going to get you sustainability over time when you are in compliance.

Wouldn’t you agree, Jessica?

**Jessica:** Definitely. This is going to keep you in business. What you don’t want to happen, not to do the scare tactic, but you don’t want an audit to come in and just swallow your business alive because you have so much extra expense in penalties and stuff. I’ve seen that happen.

Your business is going well and everything is going well until you get this extra bill you weren’t anticipating. Ultimately, with sales tax, it’s icky and you don’t like to do it, but it’s actually not money out of your pocket.

It’s really just enforcing the same thing the grocery store does with everybody. If your students and your parents know there is sales tax on costumes, there’s not a whole lot they can do to get angry at you. Let them get angry at your state. Blame it on your state.

**Suzanne:** Jill, you’re monitoring the Q&A. I’ll let you ask Jessica a couple questions.

**Jill:** Sure. There are a couple more questions that are coming in. It’s about the use tax. Would the use tax be charged if we purchase food or water for the employees of the dance school or cleaning supplies, for example?

**Jessica:** That would come into play if tax wasn’t paid on the original purchase. I’m going to say that’s only if those things are taxable in your state. A lot of states don’t charge sales tax on food and water.

If it’s just a matter of you weren’t charged on it at the grocery store because your state doesn’t charge it, then you don’t need to pay use tax on it. But if it is taxable in your state and you didn’t already pay it, then yes you would need to pay the use tax on that.

I have to say that cleaning supplies and water and food and stuff like that, it is very rare that that passes by a grocer without paying the correct sales tax before it gets to you.

**Jill:** Great. Thank you for clarifying. Lily is also asking on the web, if we were to make a big change in our reporting, would that likely cause an audit? Is that going to raise a red flag?

**Jessica:** A big change, I’m going to take that as, “I haven’t been reporting costumes and suddenly I am.”

Honestly, I don’t know if that red flags them. I know they have a statute of limitations on how far they can go back. That’s generally three years. But usually most states have what they call an amnesty having to do with audit.
By you coming forward and being like, “Here’s this costume income that I’m charging sales tax on and paying sales tax on it,” they’re not going to bat an eye because you are doing your due diligence before they catch you.

If it’s the other way around, where they audit you and they’re like, “Now you need to pay costumes and sales tax on costumes,” they’re going to look at that differently than you coming forward and doing it without being told.

They look at that differently. I wouldn’t say it necessarily flags, but you want to get on the right track. The sooner you’re on the right track, the sooner those three years go by and the portion that they might audit is not able to be audited anymore.

Suzanne: These are good questions. I actually have lived through in our own studio several audits personally. One was when we never took kids on any sort of convention or competition, and then one year we took 30 kids to California and we went from $0 travel expenses for our faculty to $20,000 in travel.

I guess my question is, we all want to avoid an audit because it does not sound like fun. When you deal with this, is it haphazard? Or is there a formula?

Jessica: For the most part, it’s a formula. They usually reset the formula every year. Each year they get together in their boardroom and come up with what they are focused on this year.

It’s not across the board. Like I said earlier, what I’m seeing is they’re starting to focus on the use tax because they know it’s misunderstood. They know that people don’t understand it, and there are companies that are not collecting it.

I have seen a focus on use tax. The state does not work in the same way that the IRS does. The IRS definitely notices your travel went from $0 to $20,000. But the state isn’t necessarily looking at those same kind of activity things.

I’m not saying this, but things do happen. Like you just said, we truly did not do this before and now we are. Now we’re selling these and we did not sell these before.

That does happen. Unfortunately, it may invite an audit, but it’s the truth. The audit is quite easy. They just need an explanation to say, “We didn’t do this before and now we do. We had a big trip and we spent $20,000 and we haven’t done this in the past.”

Usually they’ll verify the information and whatnot, but the audit is not painful because they just want the explanation.

Suzanne: Thanks for all this info. For anyone listening who may say, “Going into 2015, this is where we’re going to start,” this is the complexity of a dance studio right here.

If you as the studio owner made the purchase of the costumes in October or November but didn’t collect on the money from your students fully until 2015, when do you pay the sales tax?
Jessica: You pay the sales tax in the month that you officially sell the costume. Most of you are putting into your software or collecting and saying, “I need a $50 deposit before the year ends, and I need the balance in January.”

The balance is your official sale. You’ve just got to deposit before. It’s your official sale date.

Suzanne: Interesting, because in claiming on your taxes you are having to work that all out from the net of the tax, right? It’s a little complicated.

Jessica: It definitely does get complicated because there are different types of tax. The tax return you do at the end of the year is your income tax. That does function differently than sales tax.

It’s definitely complicated, but once you set up your systems to put it into that liability account called sales tax payable, then that doesn’t even affect your income tax return. You don’t even have to worry about that being on a different type of tax.

Suzanne: Great. That’s awesome. Thank you so much. Jill, are there any more questions on the web or anything else you want to add.

Jill: I’m not seeing any more questions coming in. We’re good.

Suzanne: Great. I want to thank you and let everyone listening know, if you do have any follow-up questions, you can ask them through the DanceStudioOwner.com members-only discussion forum. You can certainly reach out to Jessica and get her to help you and keep your passion for dance alive and grow your business.

I appreciate your time, Jessica. Thanks so much.

Jessica: Absolutely. Good luck, everyone.

Suzanne: Thank you. Goodbye.