

You... A Collector of Sales Tax, No Less

by Mark E. Battersby



Overlooked and misunderstood, sales taxes rank high among the most annoying taxes. That onerous sales tax is levied on purchases by contractors, equipment dealers, suppliers, and their pressure cleaning businesses. Many purchases via the Internet or from sources outside the pressure cleaning operation's sales tax jurisdiction are subject to a 'use' tax, a self-imposed sales tax.

As bad as sales taxes are, for pressure cleaning business owners and managers, their appointment as collectors of those taxes may weigh the heaviest. Where required, a pressure cleaning business must, by law, collect sales taxes on the goods, products, and, increasingly, services sold.

Sales taxes are both widespread and confusing. One report claims sales and use taxes are imposed in 50 states, 1,600 counties and

4,500 cities or local municipalities. Each of these sales tax jurisdictions routinely define and tax goods, products and/or services differently.

In one state, for example, orange juice is defined as a fruit and taxed. Labeled as a beverage in a neighboring state, the same orange juice is not taxed.

In addition to understanding what products and services are taxed in their jurisdiction, many pressure cleaning business owners and managers also face the question of whether sales taxes should be collected on sales in taxing jurisdictions other than their own. A number of state governments, 20 to date, now require individuals to report their out-of-state purchases—and the sales tax due—on their state income tax returns.

Sales Taxes

A sales tax is a tax on consumption and is normally a certain percentage that is added onto the price of goods and/or services. Sales tax is usually the responsibility of the pressure cleaning business to collect and remit to the state and stated separately (or implicitly added at the time of the sale) to consumers. Usually, only consumers are charged the tax; resellers are exempt so long as they do not make use of the goods.

Additionally, most states have a “use tax” for situations when the seller is in a different taxing jurisdiction.

The tax is designed to ensure that all purchases are taxed, whether purchased locally or from out of state sellers. A use tax is a tax imposed by states to collect taxes on sales that do not take place in their state.

Generally, sales taxes apply on the sale of just about anything to just about anyone. In most states, as well as in many cities, a pressure cleaning business must collect sales tax on all applicable sales. Which of your operation’s sales are taxable and which are not? Remember, every contractor, dealer, and supplier, acting in their capacity as sales tax collector, must pay over to the taxing jurisdiction the tax on all sales upon which the tax is levied—regardless of whether actually collected or not.

In the Beginning

Before any business opens its doors, registration with the sales tax authorities should be undertaken for each place of business. A license or permit is important because in some states it is a criminal offense to undertake sales without one. Any pressure cleaning business, failing to collect sales taxes, may be liable for all uncollected amounts.

Without an all-important resale certificate, a contractor or dealer may be paying sales tax on supplies, goods, and products resold to customers. While the government may not care

Whether collecting those sales taxes or required to pay sales and use taxes, every pressure cleaning business owner and manager should be familiar with the sales tax regulations in their area.

that two sales taxes were paid on the same item, only the sale to the ultimate consumer of goods, products, or services should be taxed.

Although many pressure cleaning businesses have, in the past, ignored the collection of sales taxes on out-of-state transactions, today may be a different story. Just because you do not have a physical location in a state does not always mean that you do not have to collect the sales tax. Check with all of the authorities in

Eaco Chem

Truck Wash SUPREME

One Step Truck Wash And Aluminum Brightener

Revolutionary Breakthrough!

Visit www.eacochem.com or call 1-800-313-8505

TWS
TRUCK WASH SUPREME
SC

every area where you do business, not only where your operation has a physical presence.

Across State Lines

Many pressure-cleaning businesses—even those who provide only services—often find themselves burdened with collecting sales taxes for the jurisdictions in which they operate. That role as a tax collector has been limited, thanks to a ruling by the U.S. Supreme Court, to only those taxing jurisdictions in which the pressure cleaning business has a physical presence or “nexus.” Now, a number of state tax authorities have come together to make it easier for every business to “voluntarily” collect and pay over sales taxes on sales to customers in those areas where there may or may not be nexus.

Designed primarily for catalog and Internet sales, the Streamlined Sales Tax Agreement, a new multi-state agreement, and the simplified sales tax rules agreed-to by participating tax organizations, will benefit many contractors, dealers, and suppliers. Among the incentives offered under this new multi-state pact are easy sign up, one-source of signing up with multiple states, simplified rules, and discounts or commissions.

Taxable Services

In an attempt to broaden the tax base, an increasing number of states are defining gross receipts to include the selling price of taxable services. Under many of those expanded sales tax umbrellas, services are no longer limited to only those performed by professionals.

What categories or types of services are offered by your pressure cleaning business? In general, services fall into categories such as: professional services including those offered by doctors, dentists, accountants, attorneys, consultants, and other professionals; personal services, which are services provided on a personal but not professional basis, such as haircuts, manicures, home-cleaning, landscape maintenance, laundry or dry cleaning services and the like; or, repair services.

Repair services are defined as not creating new property but merely rendering operable property usable at the site of the user. The fine distinction between assembly and installation is important because states generally tax assembly but may not tax installation.

There is another category, business services defined as resulting in the movement of services or something. The things moved could include freight (freight services), financial instruments or money (banks), persons (transportation companies), electrical or telephone services (utilities), risk (insurance companies), ownership of real property (real estate companies), etc.

The Exception to the Rule

Obviously, sales tax collection would be far easier if the tax was based on total sales without exceptions, exclusions, or exemptions. Exceptions to the general rules include sales to resellers, either wholesalers or retailers, which have valid state resale certificates or sales on non-taxable products and services. Every pressure cleaning business should have a resale certificate of license. Without such certification, all of the pressure cleaning operation’s suppliers are legally obligated to collect sales taxes.

Another exception to the general sales tax rules involves sales made to tax-exempt institutions, such as public schools and libraries. No sales taxes need be collected on sales to tax-exempt or other exempted organizations. Further complicating matters, in some states, sales taxes apply only to products, while in other states sales of only specified products are subject to sales tax. Increasingly, sales taxes are also being applied to services as well.

The Importance of Records

The complexity of the sales tax rules, and the need for keeping good records, is illustrated by California’s state sales tax regulations:

- “Records must include the books of account normally maintained by the average prudent businessman engaged in the activity in question, together with all bills,

receipts, invoices, cash register tapes, or other documents of original entry supporting the entries in the book of account as well as all schedules and working papers used in connection with the preparation of tax returns.”

Obviously, this is a tall order for any contractor, dealer, or supplier. Fortunately, there is a so-called “loop-hole” in the California sales tax regulations as well as those of many other taxing jurisdictions, that permits a pressure cleaning business to keep only those records which are “ordinarily maintained” by the average prudent businessman.

Records are also important for the business. Frequently overlooked by many pressure cleaning business owners and managers is the amount of sales tax that is included in the reported total receipts. A contractor, dealer, or supplier can wind up paying sales tax on the sales tax and income tax on the sales tax—if adequate records are not maintained.

This can happen because “gross receipts” means the total of all monies coming into the business, including sales tax collections. Obviously, careful recordkeeping is needed in order to “blackout” the sales tax from the pressure cleaning operation’s gross sales.

Finally

Those sales taxes collected by many pressure cleaning businesses and paid by even more are increasing in both amount and complexity. Cash-strapped state and local governments are raising sales tax rates, incorporating more and more products—and services—and stepping up enforcement of their collection rules. This, of course, increases the burden on every pressure cleaning business.

Whether collecting those sales taxes or required to pay sales and use taxes, every pressure cleaning business owner and manager should be familiar with the sales tax regulations in their area. Any contractor, dealer, or supplier caught not collecting sales taxes must pay those amounts from its pockets. *CT*