INDOOR TANNING SERVICE EXCISE TAX

The information contained in this presentation is current as of the date it was presented. It should not be considered official guidance.
Affordable Care Act of 2010

• Cosmetic Services IRC section 5000B
• Imposed tax on Indoor Tanning Service
• Effective date is July 1, 2010
• The tax rate is 10% tax of the amount paid for indoor tanning service
Define Indoor Tanning Service

- An electronic product that uses certain wavelengths of ultraviolet light to induce tanning
- Tanning sprays, creams, and lotions are not taxable
Who is affected by the indoor tanning tax

- Tanning salon providers
- Any other providers offering indoor tanning services
Tax Responsibility

- Any provider who charges for indoor tanning service
- How to determine liability on payments
- Tanning provider may be liable for tax due
- How is the tax computed if payment is from an insurance company
- Tax is presumed included in the amount charged if not separately stated
Reporting and Filing Requirements

- Form 720, Part II, IRS No. 140
- Due Dates of Form 720
- Deposits are not required
- Each entity requiring an EIN must file a separate Form 720
- Form 720 must be filed regardless of liability until a “final return” is filed
- Penalties apply for non-filing and late filing
Form 720 Part II IRS No. 140

<table>
<thead>
<tr>
<th>IRS No.</th>
<th>Item Description</th>
<th>Rate</th>
<th>Tax</th>
<th>IRS No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Sport fishing equipment (other than fishing rods and fishing poles)</td>
<td></td>
<td></td>
<td>41</td>
</tr>
<tr>
<td>110</td>
<td>Fishing rods and fishing poles (limits apply, see instructions)</td>
<td></td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Electric outboard motors</td>
<td></td>
<td></td>
<td>42</td>
</tr>
<tr>
<td>114</td>
<td>Fishing tackle boxes</td>
<td></td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Bows, quivers, broadheads, and points</td>
<td></td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>106</td>
<td>Arrow shafts</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>140</td>
<td>Indoor tanning services</td>
<td></td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>64</td>
<td>Inland waterways fuel use tax</td>
<td></td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>125</td>
<td>LUST tax on inland waterways fuel use (see instructions)</td>
<td></td>
<td></td>
<td>125</td>
</tr>
<tr>
<td>51</td>
<td>Alcohol and cellulosic biofuel sold as but not used as fuel</td>
<td></td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>117</td>
<td>Biodiesel sold as but not used as fuel</td>
<td></td>
<td></td>
<td>117</td>
</tr>
<tr>
<td>20</td>
<td>Floor Stocks Tax — Ozone-depleting chemicals (floor stocks). Attach Form 6627.</td>
<td></td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

Part II: Add all amounts in Part I. Complete Schedule A unless one-time filing.

<table>
<thead>
<tr>
<th>Number of gallons</th>
<th>Rate</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 Total. Add all amounts in Part II
Services exempt from indoor tanning tax

- Phototherapy Service
- Qualified Physical Fitness Facility
How to compete tax on bundled services

- Its predominant business is physical fitness
- Provides access to indoor tanning service
- Does not charge a fee for indoor tanning service nor offer the service separately
- No membership tier based on tanning
- Holds itself out to the public to improve physical fitness
Refund provisions for the indoor tanning tax

• A refund is allowable only if the tax was originally a math error.
• There are not refund provisions for non-use of service.
Determine the taxable amount

- A determination of the taxable amount must be made when purchased
- Compute the ratio of non-bundled services
- Apply the ratio to the bundled price
An example of a simple transaction

- One tanning service sold for $15
- Indoor tanning tax computation is:
  - $15 \times 10\% = $1.50
A simple transaction with a twist

• Sale of 5 tans for $80 and includes one free tan
• Indoor tanning tax calculation is:
  • $80 x 10% = $8
• Free tan does not change the calculation
Other goods and services purchased with tanning service

- Tanning service with eyewear / footwear
- Indoor tanning tax computation is:
  - $15 \times 10\% = \$1.50 \text{ IF,}
    - Other non tanning items are listed separately,
    - They are listed in the exact amounts,
    - They do not exceed the fair market value
Indoor tanning service is below fair market value

- Tanning service is $2
- Eyewear and footwear is $9
- Tax was calculated as .20 cents ($2 x .10)
- Recalculate tanning service at fair market value:
  - Tanning service is $15 not $2
  - $15 x 10% = $1.50 indoor tanning tax
Undesignated payment card

- Card issued for $150
- No tax imposed at the time the card is sold
- Card redeemed on July 15 for $15 indoor tanning service
- Tax is calculated as $1.50 (15 x 10%)
- Tax is collected on July 15
Undesignated payment card II

• Louis purchases a $100 gift certificate for Joan.
• No tax is imposed when the certificate is purchased.
• Joan is liable for tax on the indoor tanning service when the certificate is redeemed.
• If John does not collect the tax from Joan, then John is liable for the tax.
Bundled service sale

- Bundle sale price is $200
- Regular price of tanning service is $100
- Regular price of all services in bundle is $300
- Calculate the indoor tanning tax:
  - \( \frac{100}{300} = 0.33333 \) (the ratio)
  - \( 200 \times 0.33 = $66.66 \) indoor tanning service
  - \( 66.66 \times 10\% = $6.66 \) indoor tanning service tax
Bundled service sale II

- Bundle sale price is $1,000
- Regular price of tanning service is $150
- Regular price of all services in bundle is $1,050
- Calculate the indoor tanning tax:
  - $150 / $1,050 = 0.14286 (the ratio)
  - $1,000 x 0.14286 = $142.86 indoor tanning service
  - $142.86 x 10% = $14.29 indoor tanning service tax
Bundled service sale III

- Bundle sale price is $252
- Regular price of tanning service is $30
- Regular price of all services in bundle is $282
- Calculate the indoor tanning tax:
  - $30 / $282 = 0.10638 (the ratio)
  - $252 x 0.10638 = $26.81 indoor tanning service
  - $26.81 x 10% = $2.68 indoor tanning service tax
Bundled service sale IV

- Margaret buys a bundled service as a gift for Cindy
- Tax must be computed on the purchase of a bundled service
- Margaret is liable for the tax since she is paying for the bundle
- The same tax calculation rules in our previous examples apply
Recordkeeping

• The Internal Revenue Code requires that taxpayers keep proper records
• The records must be sufficient enough to show whether the tanning provider is liable for the tanning tax
• The records must accurately reflect the indoor tanning service revenue
Guidance

• Indoor Tanning Service regulations can be found at:

• Additional guidance in the form of video, FAQs, can be found at:
Summary

- ACA created the new indoor tanning service tax effective July 1, 2010, which is 10 per cent of the cost of the tanning service.
- The tax is imposed on amounts paid for indoor tanning service.
- There is a specific definition for indoor tanning service.
- There are certain exceptions.
- The tax is reported on Form 720.