



Top Five Tax Traps Small Business Owners Need to Avoid *These Hidden Hazards May Cost You Money*

By George Runner

As Vice Chair of the California State Board of Equalization (BOE), I regularly hear from small business owners who are caught off guard by tax liabilities. This isn't surprising given the complexity of California's tax laws. Even the most well-meaning, knowledgeable business owner can run into problems.

Because of this, I regularly host free small business and nonprofit tax seminars throughout my district to help business owners avoid these "tax traps." (In fact, we're hosting a series of events in the coming months designed to help small business owners be successful. Learn more at www.boe.ca.gov/events.)

For those of you unable to attend one of these free seminars, here are the top five tax traps to avoid:

1. Getting Stuck with a Prior Owner's Tax Bill

Buying a business or stock of goods? You could become responsible for the seller's unpaid tax, interest and penalties up to the purchase price of the business or stock of goods. Before buying a business, protect yourself from this liability by requesting a certificate of tax clearance by contacting your [local BOE office](#) or by calling the BOE's Customer Service Center at 1-800-400-7115.

After receiving your written request for a tax clearance certificate, the BOE will determine whether the business you are buying owes any sales and use taxes, interest or penalties. If any money is owed, the current owner will be notified and advised to pay the amount due, or you will be advised of an amount to withhold from the purchase price or to redirect to the BOE to cover the potential liability.

2. Dumping Records Too Soon

If you maintain a California seller's permit, the BOE requires you to [save business records](#) for a minimum of four years in the event of an audit. Prudent businesspeople may want to keep business records for up to eight years.

If you don't keep accurate records, government auditors may estimate your tax liability. You'll have a difficult time challenging a government estimate without proper records.

3. Guessing Instead of Getting Written Advice

Many business owners fail to report taxes simply because they aren't sure if their sales or purchases are taxable. If you're having trouble determining if an item is taxable, you can request specific advice in writing on your tax questions from the BOE.

You can do this by using the [online request form](#) or by sending a letter to one of our field offices. Getting advice in writing may protect you from owing tax, interest or penalties should the BOE give you erroneous information.

4. Making Late or Incomplete Tax Payments

The tax money you collect from customers is meant to pay your sales and use tax obligation. To better manage this money, open a separate bank account. This will ensure you have the funds necessary to make full and timely payments to the BOE.

If you don't make payments, the BOE can hold you or your employees personally responsible for any unpaid sales and use tax obligation.

5. Spousal Liability

In general, when you have an existing account with the BOE with ownership as a husband and wife or a registered domestic partnership, both parties are responsible for liabilities owed to the BOE. This is true even if one partner knows nothing about the business.

A partner not involved in running the business can [file for innocent spouse](#) relief to eliminate individual personal responsibility for the debts incurred by the business.

California tax laws should be clear and fair for everyone. That's why I'm working with my colleagues and state lawmakers to eliminate tax laws that are unfair or confusing.

By watching out for tax traps, small business owners can spend less time worrying about taxes and more time helping their businesses succeed. When business owners are successful, our state prospers as well.

George Runner represents more than nine million Californians as a taxpayer advocate and elected member of the State Board of Equalization.