FINANCE, MODULE 2

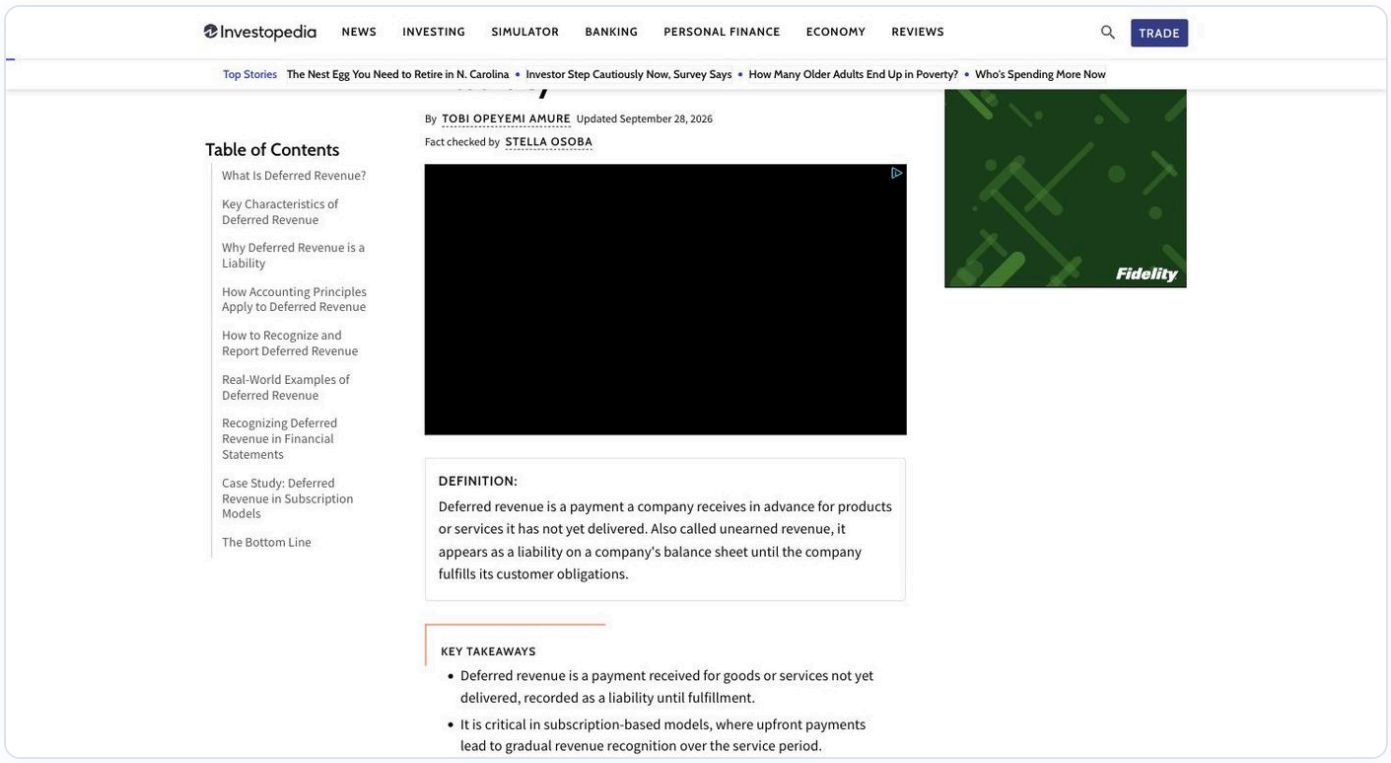
The rules that trip up medspas

Eight rules cover almost every way a medspa's books go wrong. After this module you know each one, why it exists, and what it costs to get it wrong.

> **About states.** Rules 3 and the compliance notes use California as the example. Sales tax, who may inject, medical director requirements and good faith exams all vary by state. Check yours on our state map and with your attorney.

Rule 1. A package or membership sold is a debt until the visits happen

When a patient pays up front for something you have not delivered, you have their money and you owe them the service. The money is a liability called **deferred revenue**. It becomes revenue one visit at a time. Click through a $2,400 six visit laser package to watch it move.



Source Investopedia, Deferred Revenue. "A liability on a company's balance sheet until the company fulfills its customer obligations."

Day 1: sold	After visit 1	After visit 4	After visit 6

BALANCE SHEET	
Cash	+2,400
Deferred revenue (owed to patient)	+2,400

PROFIT AND LOSS	
Package revenue earned	0
Effect on profit	**0**

The clinic is $2,400 richer in cash and $2,400 deeper in obligations. No revenue yet.

Memberships work the same way month by month: the fee collected on the 1st is owed until the month passes and the included treatment is delivered. Expired, unused visits become revenue on expiry, per your membership terms and your CPA's guidance.

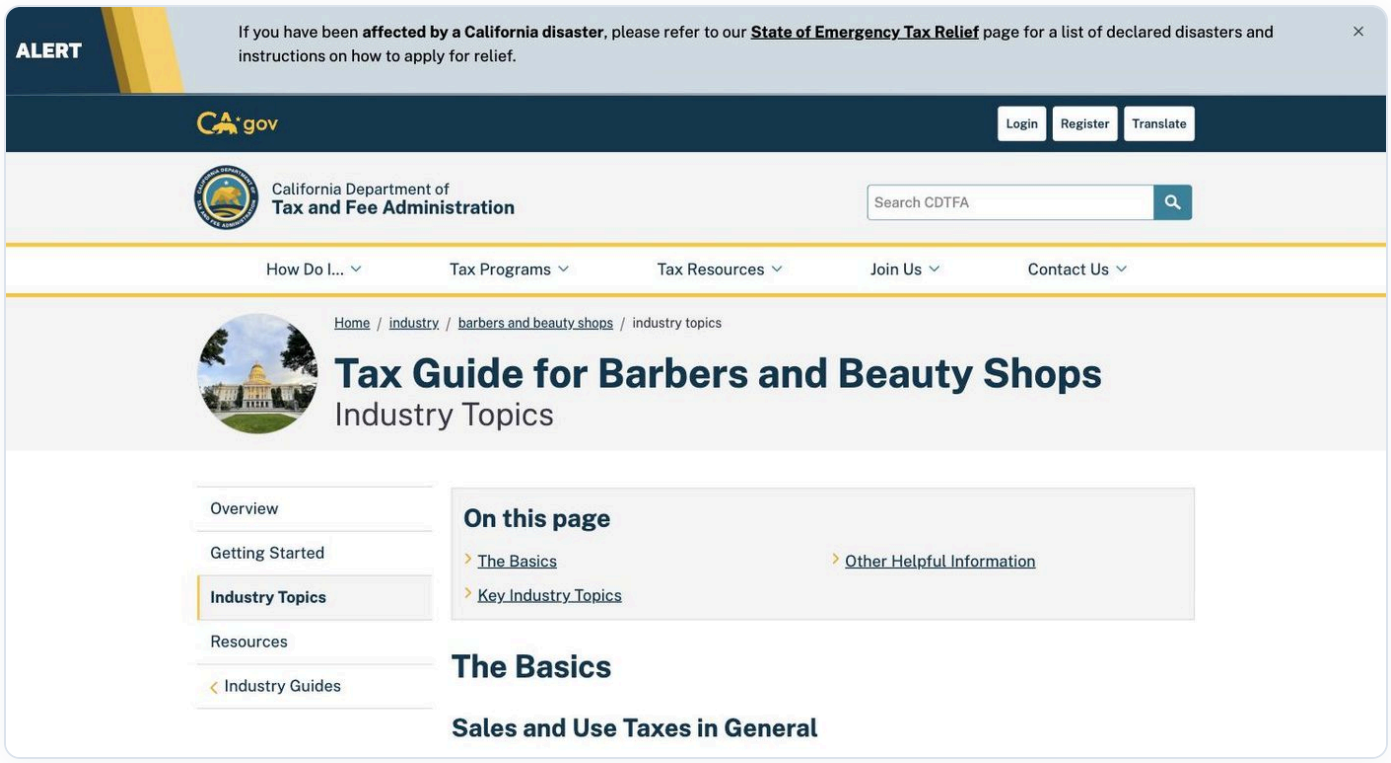
> **Why it matters beyond correctness.** A buyer values your clinic on earned revenue. A clinic that books packages as revenue on the day of sale overstates revenue in growth months and then owes visits it has already counted. The buyer's accountant finds it in diligence and the price drops (Advanced 6).

Rule 2. A gift card is money you owe

Selling a $500 gift card is not a sale. It is $500 of cash and a $500 liability until the card is redeemed. On redemption the liability drops and revenue is recorded for whatever was provided. Track outstanding gift cards in your booking system and tie the balance to the books monthly.

Rule 3. Services are usually not taxed. Products are. Supplies are taxed on the way in.

In California, the state's guide for beauty businesses sets out three positions that apply to most of a medspa's sales. Two exceptions to confirm with your CPA: prescription products administered by a physician can follow different rules, and supplies bought from out of state vendors without tax owe use tax. **Other states differ**, and a few tax some services. Check yours.



Source California Department of Tax and Fee Administration, Tax Guide for Barbers and Beauty Shops. Facial, skin and laser treatments listed among non taxable services; skin care products sold to customers among taxable sales.

What happened	Sales tax? (California)	In the books
Patient pays for a treatment	No. Personal services are not subject to sales tax.	Service revenue, no tax line
Patient buys a skincare product to take home	Yes. You collect it and remit it.	Retail revenue, tax collected to Sales Tax Payable
You buy the neurotoxin, filler, gels and consumables you use in treatments	Yes, you pay it. You are the consumer of supplies used in performing a service.	Part of product cost, not a separate liability
You sell a gift card	Not at sale. Tax applies on redemption if it buys a taxable product.	Liability at sale, revenue and any tax on redemption

Practical consequence: on a supplier invoice, items bought for resale should be tax exempt (resale certificate on file with the supplier) and consumables you use in treatments should carry tax. Getting that backwards costs you twice a year.

Rule 4. Injectables are inventory, and inventory gets counted

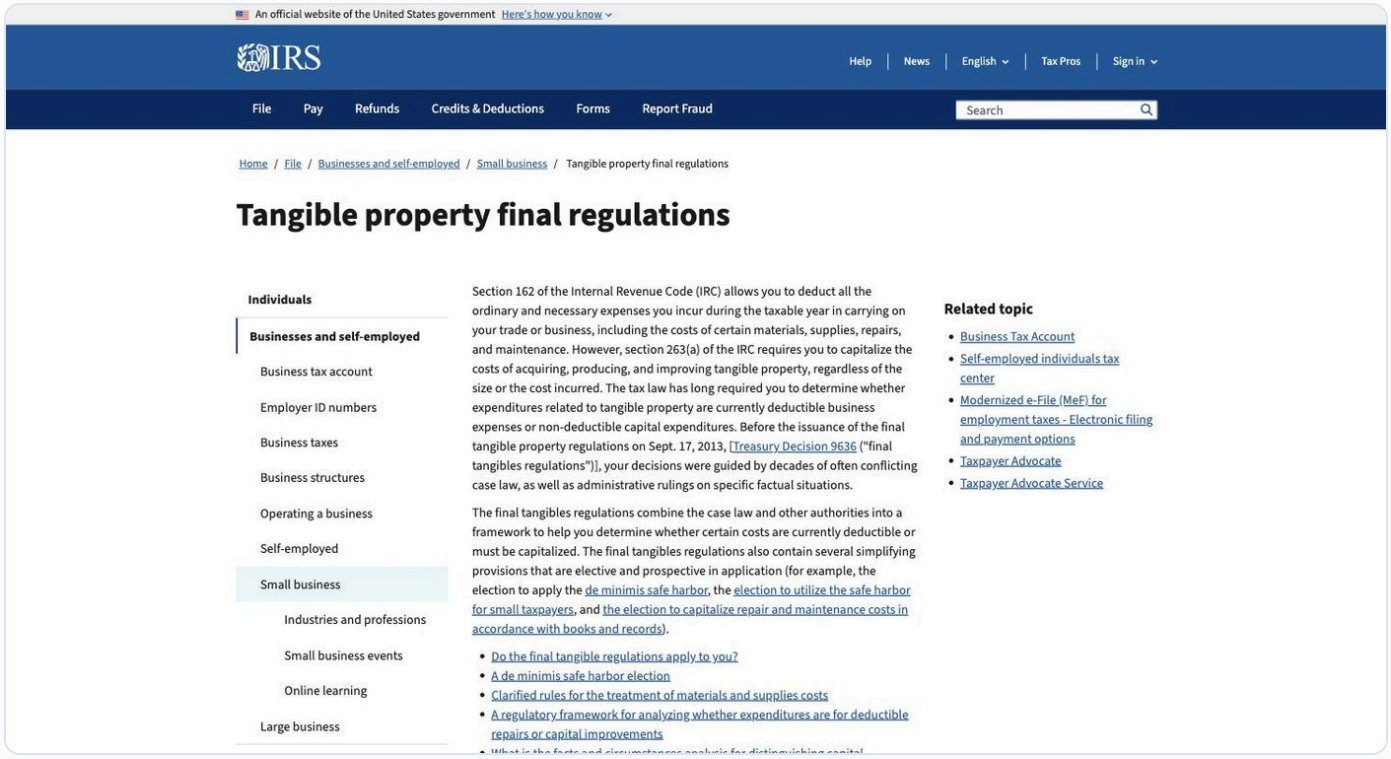
Neurotoxin and filler are the largest product cost in most clinics, and they sit on the shelf as an asset until used. Each month the units used move to cost of services by service line, and a physical count catches waste, expired product and the occasional missing vial. Gross margin per service, the number that tells you whether pricing is right, depends entirely on this count. Operations 3 is the how.

Rule 5. Commissions and wages belong to the month they were earned

If an injector earns commission on September treatments and is paid October 10, September carries the expense and the balance sheet carries the amount owed until it is paid. Otherwise September looks more profitable than it was and October looks worse. The same goes for bonuses, membership incentives and payroll taxes.

Rule 6. Small equipment is an expense, big equipment is an asset

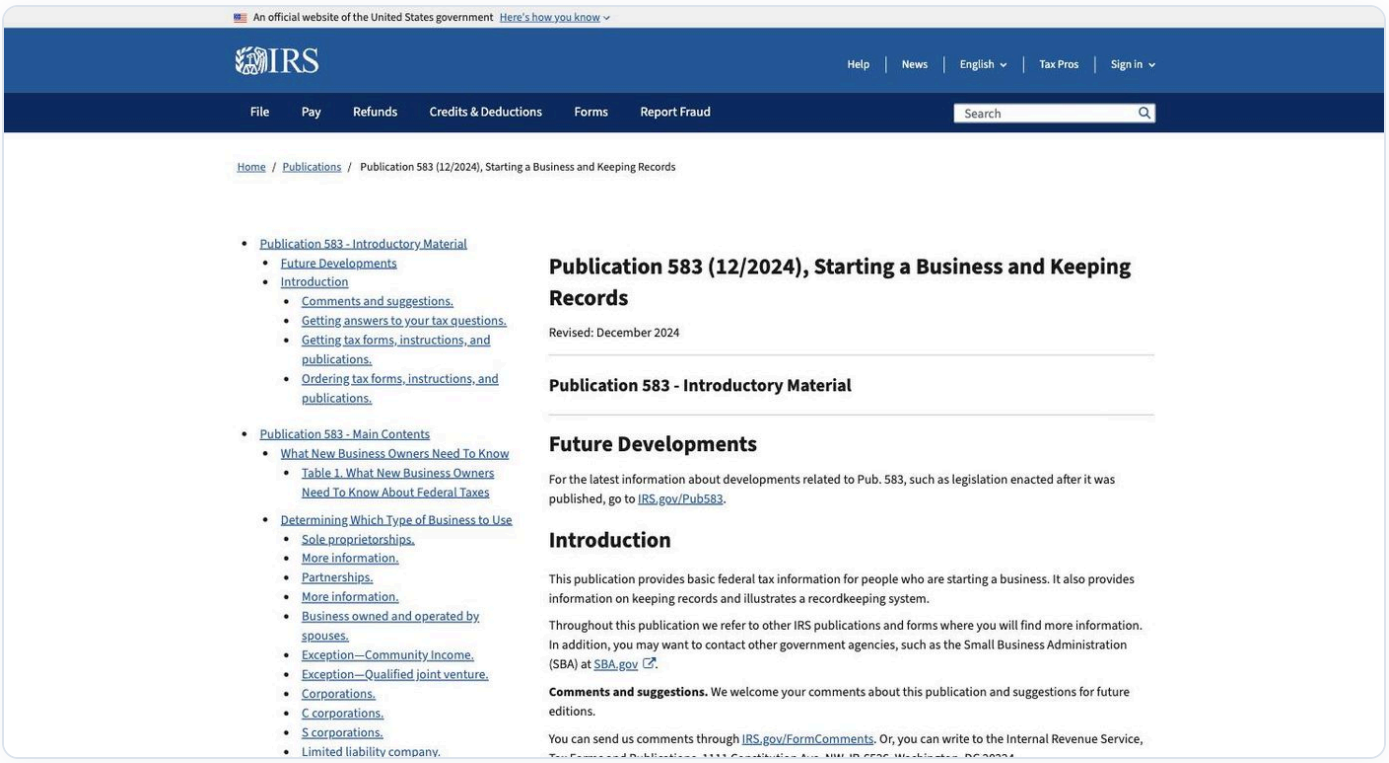
A $900 treatment chair is an expense the month you buy it. A $90,000 laser is an asset that is depreciated (expensed a little each month) over its useful life, and the loan that paid for it is a liability. The line between the two is your capitalization threshold. The IRS safe harbor for a business without audited statements is **$2,500 per invoice or per item**, applied consistently and elected on the return each year.



Source Internal Revenue Service, Tangible Property Final Regulations, including the de minimis safe harbor election.

Rule 7. Start up costs have their own rules

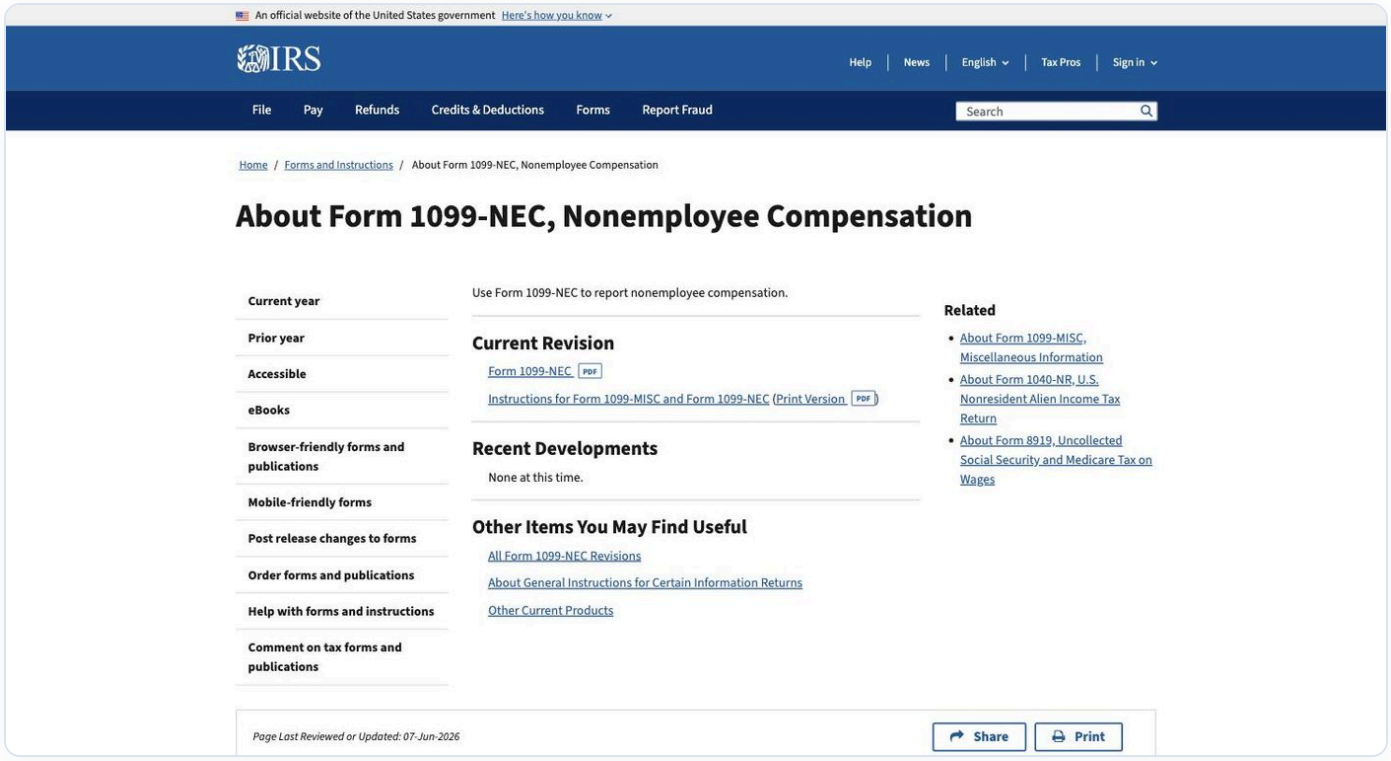
Money spent before opening, such as consultants, training, travel to trade shows and formation costs, is not simply a first month expense. Under Section 195 the first $5,000 can be deducted in the first year, reduced once total start up costs pass $50,000, with the rest deducted evenly over 180 months. Keep the itemized list; your CPA needs it.



Source Internal Revenue Service, Publication 583, Starting a Business and Keeping Records.

Rule 8. Contractors get a 1099, and the list is due in January

Anyone you pay for services who is not an employee (a freelance photographer, a contract aesthetician, a cleaning contractor) may need a Form 1099-NEC. Collect a W-9 from every such vendor before the first payment, not in January. Federal law raised the reporting threshold from $600 to $2,000 for payments from 2026 onward; confirm the threshold for your year with your CPA.



Source Internal Revenue Service, About Form 1099-NEC.

And one rule about you: owner pay in a corporation is salary

In a sole proprietorship or an LLC taxed as one, you take money out as a draw. In a corporation, owners who work in the business are employees, paid through payroll with taxes withheld. Anything else taken out is a dividend, a distribution, or a documented shareholder loan, each with its own tax treatment. The practical rule: never move money to a personal account outside payroll without telling your bookkeeper first, and never put a personal expense on a company card. Each one has to be found and explained, and each is a small dent in the credibility of the books.

> **If you have two companies.** Some states require a physician owned practice with a separate management company. The rules above apply to both; the extra rules about how money moves between them are covered in the private client modules.

> **Where Benchmark comes in.** We set up the deferred revenue and gift card accounts, roll them every month from your booking system, reconcile sales tax and send the figures to your CPA, accrue commissions to the right month, keep the 1099 list current, and draft the one paragraph capitalization policy.

Try it yourself

- [ ] Write down every prepaid offer you sell: packages, memberships, series, gift cards. Each needs a liability account and a rule for when it becomes revenue.

- [ ] Find a retail supplier invoice and check that resale items are tax exempt and consumables are taxed.
- [ ] List every non employee you expect to pay this year and collect a W-9 from each before the first payment.

Check yourself: Finance 2

A patient buys a $1,200 four session package and uses one session this month. Month end revenue from this sale is

$1,200

$300, with $900 in deferred revenue

$0

One quarter delivered, one quarter earned. The rest is owed.

In California, which of these carries sales tax when sold to a patient?

A neurotoxin treatment

A bottle of sunscreen to take home

A laser hair removal session

Services are not taxable there. Tangible products sold to the customer are. Other states differ.

You buy a $1,900 handheld device for the treatment room. Under a $2,500 threshold it is

A fixed asset depreciated over five years

An expense this month

A start up cost

Below the capitalization threshold, expense it. Above it, capitalize and depreciate.

An injector earned $2,000 of commission in September, paid October 10. September's P&L should show

Nothing, it was not paid yet

$2,000 of commission expense and $2,000 owed on the balance sheet

$2,000 in October only

Accrual basis: the expense belongs to the month the work was done.

The owner of a corporation wants $10,000 out for a personal expense. The right way is

- Write a check and code it to office expense
- Through payroll as salary, or as a documented dividend or shareholder loan agreed with the CPA
- Put it on the company card and sort it out at year end

Working owners of a corporation are paid as employees. Anything else needs its own paperwork and tax treatment.

Pick an answer for each question.

Want this done, not just explained?

The 10-Day Sprint finds the leaks for $1,000, one time. After that, on the plan, the scorecard keeps coming and at least one growth initiative is executed with you every month. Plans from $2,299 a month. Everything in this module is part of that work.

See the sprint and pricing | Text Nate

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