

Cosmetology

THE ART OF DOING BUSINESS



Federal Tax Guidelines for the Cosmetology and Barbering Industry

Courtesy of the Internal Revenue Service
Small Business and Self-Employed

*IRS & State Licensing Agencies
Partnering to promote better understanding of federal
tax responsibilities.*

Now that you are a licensed professional....

There is important information that you need to know about your federal tax responsibilities.

Filing & Paying Your Taxes Has Its Benefits.

The benefits of reporting all of your income and paying the correct tax include:

- Improved financial profile for loans based on reported earnings
- Greater Social Security and Medicare benefits
- Greater unemployment and disability benefits
- Increased Workers' Compensation
- Improved retirement options
- Allowable expenses are deductible against current income
- You may qualify for the Earned Income Tax Credit
- Peace of mind – You are obeying the law!

This brochure explains the various federal tax requirements for barber, cosmetology, and personal care professionals to help you understand your tax responsibilities.

All income is taxable.

As members of the barber, cosmetology, and personal care industry the money you receive for services you perform, whether it is wages, commissions, fees, retail sales, rent/lease payments, or tips; whether paid by cash, check, charge, or bartering is taxable.

"All income is taxable unless specifically excluded by the Internal Revenue Code."

If you are an employee and receive tips, you must report that amount to your employer. If you are a self-employed salon or barbershop owner, booth renter, or independent contractor, all income received, including tips, must be reported on your Federal Individual Income Tax Return.

The Art of Doing Business

**"Workers can be employees,
self-employed, or both."**

The barber, cosmetology, and personal care industry is unique because it offers you many different career and employment opportunities.

What are the different types of worker classifications?

The obligations and responsibilities for each worker category are different. Proper worker classification will enable you to file and pay the correct tax.

The choices are: employee, salon or barbershop owner/employer, and booth renter.

Employees receive Form W-2 for wages earned and are responsible for reporting their tips to their employer as well as maintaining records of their non-reimbursed employee business expenses. You can be considered an employee even if you are a colorist, a shampooer, or a perm technician.

Salon-Barber Shop owners/employers are in business for themselves. They are responsible for recording all income and expenses; withholding employment taxes, if they have employees, such as shampooers and receptionists; and paying all taxes due.

Booth Renters, who are not employees of the salon or barbershop, are independent contractors and are always self-employed. They are responsible for record keeping and timely filing of returns and payment of taxes related to their business.

For information concerning state and local tax and licensing matters contact your state or local agencies.

Please visit our small business Web site at www.irs.gov/smallbiz.

What are my tax responsibilities?

Your federal tax filing requirements will be based upon your worker classification. The tax system is a pay-as-you-go system.

Employees receive a Form W-2, Wage and Tax Statement, from each employer. The Form W-2 combines all wages and reported tips and it shows the amount of federal taxes withheld and paid throughout the year. You will file a federal income tax return (Form 1040, 1040A, or 1040EZ) and report the income shown on Form W-2.

Self-employed (salon or barbershop owner, booth renter, independent contractor) you are responsible for filing and paying all of your own taxes. This would include filing your federal income tax Form 1040, Schedule C, and Schedule SE.

"Self-employed? You may be required to make quarterly estimated tax payments using Form 1040-ES."

Employers in addition to your own personal tax obligations, you will have employment tax responsibilities which may include the following:

- Form 941- filed quarterly
- Form 940 - filed annually
- Form W-2 - issued annually
- Form 1099-MISC - issued annually to any person (not a corporation) to whom you have paid over \$600 for services rendered to the business.

Did you know...?

IRS offers you a way to file and pay your taxes electronically?
www.irs.gov/efile or www.eftps.gov

You can e-file for free? Find out if you qualify.
<http://www.irs.gov/app/freeFile/welcome.jsp>

IRS' Tip Reporting Alternative Commitment (TRAC) Program can help employers provide tip education to employees?

IRS has information to help taxpayers recognize home-based business tax avoidance schemes - that promise tax benefits not allowed by law?

IRS Publications & Forms

Business Tax Guides:

Publication 15

Circular E, Employer's Tax Guide

Publication 334

Tax Guide for Small Business

Publication 505

Tax Withholding and Estimated Tax
When and How To Compute and File Estimated Taxes

Publication 583

Starting a Business and Keeping Records

Publication 587

Business Use of Your Home

Publication 1779

Independent Contractor or Employee
Factors used in determining status

Publication 3518

Beauty, Barber, & Cosmetology Industries

Publication 4035

Is It Too Good To Be True - Home-Based Business Tax
Avoidance Schemes

Tip Reporting:

Publication 531

Reporting Tip Income

Publication 3144

Tips on Tips for Employers

Publication 3148

Tips on Tips for Employees

Taxes and Other Topics:

Publication 3207

The Small Business Resource Guide CD-ROM

Publication 3959

EFTPS CD-ROM for Tax Practitioners, Taxpayers, and
Financial Institutions

IRS Tax Fax Services

1-703-487-4160

For tax forms to be faxed to you

1-800-829-3676

For tax forms and publications
to be mailed to you

1-800-829-1040 or 1-800-829-4933

For more tax information

A horizontal banner with a blue background. On the left, there are three small images: a person in a white lab coat, a person in a white shirt, and a person in a white shirt. To the right of these images is the text "SB/SE" in large, bold, white letters. Below "SB/SE" is the text "Small Business and Self-Employed" in smaller white letters. To the right of this text is the slogan "consider it done" in a smaller white font. Below the slogan is the website address "www.irs.gov/smallbiz" in a smaller white font. On the far right of the banner is a circular logo with a stylized design.

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