



The Beauty Biz Agency



# Salon & Spa Owner

SAVVY TAX PLAYBOOK

[thebeautybizagency.com](http://thebeautybizagency.com)

Disclaimer: The Beauty Biz Agency is not a certified accounting firm. The provided information is intended to offer relevant insights into taxes and serve as conversation starters for discussions with your accountant. We strongly advise seeking the services of a Certified Public Accountant (CPA), Tax Attorney, Financial Advisor, or another licensed professional. The Beauty Biz Agency does not accept legal liability for the accuracy, reliability, or comprehensiveness of any content within this e-book.

Taxes aren't always fun,  
but they are inevitable!!!

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"They might be inescapable, but fear not! With this helpful guide, you'll gain a clearer grasp of tax payments and you might even uncover a few tricks you didn't know.





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# 02 Tax Terminology

"Running a salon or spa is a blast, but when it comes to taxes, it's like speaking a whole new language! 🤓 That's where your trusty CPA or accountant comes in. They're your partners in financial wizardry. 🧙 But guess what? You, as the boss, should also know a thing or two about these fancy tax words. Tax season brings in some weird terms that you don't normally hear while styling hair, pampering clients or leading your team.

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So, before you dive into the tax talk with your pro, buckle up and let's learn these "cool" terms together!"



# Definitions & Explanations

## **W-2:**

Definition: A tax form from your employer, detailing wages, salaries, and withheld taxes for the year.

## **1099:**

Definition: A form provided by entities or individuals **(not employers)** to report payments made to you. Independent contractors often receive 1099-MISC or 1099-NEC forms.

## **Dependent:**

Definition: A qualifying relative or qualifying child, excluding the taxpayer or spouse, who allows the taxpayer to claim a dependency exemption.

## **Commission:**

Definition: Compensation an employee receives for services performed, often based on a percentage of sales or a fixed amount per sale.

## **Earned Income:**

Definition: Includes wages, salaries, tips (included in gross income), and net earnings from self-employment.

## **Gross Income:**

Definition: Money, goods, services, and property received by a person that must be reported on a tax return.

Includes Unemployment Compensation.  
Excludes welfare benefits and nontaxable Social Security benefits.

## **Adjusted Gross Income (AGI):**

Definition: The amount of money earned after specific deductions, credits, and business expenses, such as contributions to an IRA or paying student loan interest.

Excludes standard or itemized deductions.

# Definitions & Explanations

## **Tax Liability:**

Definition: The total amount of money owed to a taxing authority like the Internal Revenue Service (IRS).

## **Tax Deduction:**

Definition: Expenses incurred during the year that can be subtracted from gross income to lower tax liability, reducing taxable income.

## **Tax Credit:**

Definition: An amount subtracted from the taxes owed, directly reducing the actual tax amount due..

## **Exemption:**

Definition: An amount claimed for oneself, a spouse, and eligible dependents, reducing taxable income. Two types: personal and dependency exemptions.

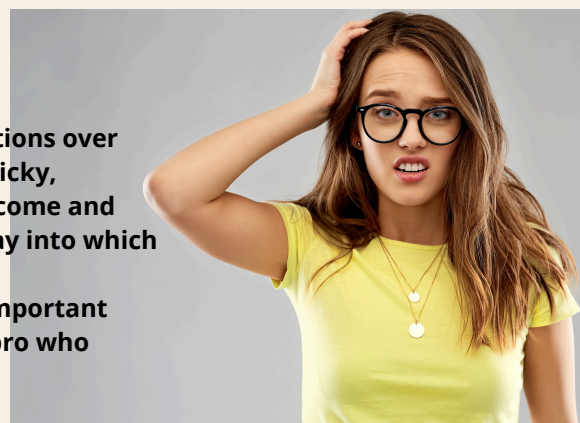
## **Withholding:**

Definition: Employers withhold a portion of an employee's paycheck to cover tax bills. This withheld money serves as a deposit to the IRS, applied to the tax bill upon filing. It can result in a refund or additional payment.

## **Standard Deduction:**

Definition: An IRS allowance for those not itemizing deductions. It's a portion of income not subject to tax, reducing the tax bill based on filing status, age, and other criteria.

**Pro Tip:**  
Choosing deductions over credits can be tricky, because your income and other factors play into which you can use. That's why it's important to talk to a tax pro who can help you!



**Tax Deductions:** They lower the amount of money you have to pay taxes on, which means you owe less in taxes.

**Tax Credits:** These directly reduce the amount of income tax you have to pay, dollar for dollar. Some common ones are the Earned Income Credit, American Opportunity Tax Credit, and the Savers Tax Credit.



Oh, I just  
love tax  
season.  
Said no one  
EVER!!!



# 04

## Employees vs Independents

**This is an area where many salon & spa owners tend to get confused, however, when it comes to the IRS, it is VERY clear!**

**Employees = W-2**

**Independent Contractors = 1099**

**Mis-classification happens far too often in the beauty industry.**

**It is time for salon & spa owners, to understand the difference in employees and independents, and start running their businesses legally.**

**Once this happens we can revolutionize commission salons and spas!!**





## Differences

### EMPLOYEE

Receives a W-2

Hired by Employer

Employers pays 1/2 of Medicare, Social Security & other Gov. Taxes.

Taxes are withheld from each paycheck.

Business pays employee: Hourly, salary or commission.

Salon/Spa Owner creates work schedule.

Salon/Spa Owner provides all supplies.

Business owner sets rules, pricing, etc. Employee must follow.

### INDEPENDENT - IC

Receives a 1099 Form

Self Employed

Salon or Spa Owner has nothing to do with taxes. IC is responsible for all taxes.

Salon/Spa owners does not handle any payments for IC.

Salon/Spa owners does not pay for ANY supplies. This means ZERO!

Salon/Spa owners can't make schedules, prices, policiess, etc.

**ATTENTION OWNERS!!!**

As the owner of your company, it is your responsibility to ensure your business complies with state and federal employment and tax laws.

This is VERY important. If 1099 workers operate in your salon/spa space, you may not set their hours or their prices nor can you provide products, etc. If you do, they MUST be classified as employees.



## Scenarios:

With the controversy over what is legal and what is NOT. Here are a few instances that have happened and the IRS rulings.



### **Scenario 1**

Monthly rent paid by stylist

Stylist responsible for own advertising

Stylist brings and uses their own equipment

Stylist schedules clients independently

Stylist handles all payment transactions directly

**Determination by IRS: Independent Contractor**

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### **Scenario 2**

Hourly wage paid by salon

Salon provides all equipment and supplies

Stylist follows salon's set schedule

Salon handles all client payments

Stylist receives a regular paycheck with taxes withheld

**Determination by IRS: Employee**





# Salon & Spa Owner Tax Perspective

## Hiring Employees

When you hire employees for your salon or spa, there are specific tax-related responsibilities to keep in mind:

- You must withhold federal income tax, Social Security tax, and Medicare tax from your employees' paychecks.
- You are responsible for paying half of your employees' Social Security and Medicare tax (7.5% each).
- Depending on your state, you may also need to pay unemployment taxes and report wages and taxes withheld on a quarterly basis.

## Income Sources

As a salon or spa owner, your taxable income can come from various sources:

- Revenue from client services is a primary source.
- You might also earn income from retail sales of products.
- If you rent out suites or chairs to other stylists, the rental income is another part of your taxable income.

### Pro Tip:

Starting in 2018, you can't deduct unreimbursed employee expenses on your federal tax return, but check your state's rules as some states, like California, may still allow it. Always stay informed about your state's tax regulations!



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### Salon/Spa Owner

Taxable income for salon/spa owners comes from various sources, like services, product sales, and rental income from suites or chairs.

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# Employee & Independent Tax Perspective

## **Salon/Spa Employee**

- If you work in a salon and get a W-2 form, your taxes are usually straightforward. Don't forget to check the deductions list for possible savings!

## **Suite Renter**

- If you run your salon alone, report your income and expenses, including tips.

## **Independent**

Being your own boss can be more complicated. Remember these things:

- Report all your income, including tips, using the right tax form (like Form 1040 with Schedule C).
- If you expect to make over \$1,000 in a year, pay quarterly taxes (look at Form 1040-ES for help). It spreads out your tax payments.
- You can claim different deductions, but some rules apply. For example, you can't deduct salon supplies you didn't pay for.

# CONTROVERSIAL TOPIC

It's essential to recognize that tips are indeed taxable, and this responsibility falls on owners, employees, and independent contractors. Accurate tip reporting is crucial for two significant reasons.

First, not reporting tips can lead to IRS audits and potential penalties. Second, if you ever need to apply for unemployment benefits, purchase a home, or have a clear understanding of your income, failing to report tips can distort your true income.

To simplify this, let's break it down for better comprehension.



# Gratuity

## Salon & Spa Owners with Employees

As the owner of your salon or spa, it is your responsibility to keep track of the gratuity that your employees receive. It is vital that you keep all documentation to track these tips!

You will also need to take care of some taxes. You have to collect income tax, employee Social Security tax, and employee Medicare tax on the tips your employees receive. When it comes to cash tips your employees should tell you about their tips by the 10th of the month after they got them. For instance, if they got tips in October, they should tell you by November 10. Once they tell you, it's your job to make sure those tips are reported correctly to the government.

## Booth/Suite Rent Owners

You have zero employees, the employer requirements for tip reporting do not apply to you.





# Understanding Tax Write-Offs: What You Need to Know About Tax Deductions

A write-off is like a money-saving tool for your business. It's a real expense that you can subtract from the money you're going to be taxed on. This helps lower your tax bill.

For a business expense to count as a write-off, it needs to meet two important criteria, according to the IRS:

- It should be something ordinary, which means it's a common expense in your trade or industry.
- It should be necessary, which means it's useful and appropriate for your business.

We have a big list of potential deductions you might be able to use. But here's the thing: knowing the tax lingo and the details of tax deductions is super important. People who aren't very experienced with business taxes might try to claim things that aren't allowed

- **For example, if you go on vacation with a friend and do your friend's hair while you're there, you can't say the vacation is a business expense. Also, if you only use your car to drive to and from the salon every day, the IRS sees that as a regular commute, so you can't write off your car expenses.**

Here's another tip: If all your deductions don't add up to more than the standard deduction, it might be better to just claim the standard deduction. A tax expert can help you figure this out better.





# **Tax Deductions for Salon & Spa Owners**

Remember to save all your receipts. To claim business expenses as deductions, they need to be expenses that are common and important for your business. It's a good idea to talk to a tax expert to make sure your tax return is done correctly!

# A Few Business Expenses You Can Deduct:

## **Salon Supplies:**

(Note: Deducting supplies depends on their lifespan. Some can be deducted in the year purchased, while others may be depreciated over several years.)

- Blow dryers
- Capes/Robes
- Foils
- Towels
- Clippers
- Combs/Brushes
- Clips
- Rollers/Perm Rods
- Makeup
- Laundry supplies
- Hair dryers
- Flat irons/Curling irons
- Wash Bowls
- Dryer chairs
- Styling chairs
- Salon stations
- Hand mirrors

## **Retail and Color Products:**

- Retail products sold
- Backbar products
- Hair color, lightener, and developer
- Extension Supplies

## **Rent/Lease:**

- Rent or lease payments for salon space
- Rent or lease of equipment for business use

## **Transportation:**

- Mileage to and from clients (standard rate for 2022: 62.5 cents per mile)
- Work-related errands (buying supplies, going to education events)
- Ride services (like UBER or taxis) to and from clients

## **Insurance and Retirement Plans:**

- Property coverage for equipment and building
- Liability insurance coverage
- Group health, dental, and vision insurance for employees
- Professional liability insurance
- Workers' compensation coverage
- Auto insurance for business vehicles
- Life insurance for employees (business owner not a beneficiary)
- Business interruption insurance
- Pension and profit-sharing plans (SEP, SIMPLE plans)

## **Advertising:**

- Online ads
- Signage
- Website hosting fees
- Printing for fliers or brochures
- Business cards
- Promotional items given as gifts
- Fees for a graphic designer or web developer
- Event sponsorship

## **Misc Supplies/Accounts:**

- Paper
- Printer ink
- Postage
- Office phone
- Refreshments for clients
- Tablets/iPads
- Computers
- Cleaning supplies

## **Tax-Related Deductions:**

State and local sales taxes for goods and services  
Real estate and personal property taxes on business assets  
Licensing and regulatory fees (like cosmetology board licenses)  
Federal unemployment tax  
Social Security and Medicare taxes for employees  
Local business license:

# A Few Business Expenses You Can Deduct:

## Meals and Entertainment:

- Business meals (100% deduction for dine-in, catered, or take-out)
- Business dinners
- Meals with or for employees
- Office holiday party meals
- Alcohol expenses

## Travel Costs:

- Travel to and from business destinations (plane, train, bus, car)
- Use of your car for business purposes
- Parking fees
- Tolls
- Transportation costs (taxis, rideshares)
- Lodging expenses
- Tips during travel
- Baggage fees
- Cancellation fees for business trips

## Work-Related Clothing:

- Apron or smock
- Uniforms
- Replacement of damaged work-specific clothes

## Services and Contract Labor:

- Business Coaching
- Merchant Fees
- Online salon software services
- Shear sharpening
- Dry cleaning for work clothes
- Salon cleaning fees
- Payments to independent contractors
- Fees for accountants, attorneys, tax advice, and tax form preparation

## Financial Fees:

- Bank or credit card service charges (annual or monthly)
- Transfer fees
- Overdraft fees
- (\*Note: Fees must be related to business accounts to be deductible.)

## Utility Bills:

- Electricity
- Trash collection
- Heating and cooling
- Water
- Internet service
- Cell phone bills (partial deduction if used for business)

## Education Expenses:

- Subscriptions (educational, business, etc.)
- In-person education or events (Hair Shows)
- Online classes and webinars
- Educational books for your business
- Audible subscriptions for industry content

## Misc Supplies/Accounts:

- Paper
- Printer ink
- Postage
- Office phone
- Refreshments for clients
- Tablets/iPads
- Computers
- Cleaning supplies

## Home Office Expenses:

- Partial deduction for housing expenses if you use a home office (consult a tax pro)

## Interest Expenses:

- Credit card interest
- Interest on business-related loans
- (\*Note: Interest can be deducted if you're legally responsible for the debt, intend to repay it, and have a genuine debtor/creditor relationship.)

## Other Miscellaneous Expenses:

- Membership dues for professional and business organizations
- Costs related to franchises and trademarks

A woman with dark curly hair, wearing a bright red blazer and matching pants, is shown from the waist up. She has her arms outstretched and a wide, joyful smile on her face. Several US dollar bills are falling around her, some near her head and others near her hands. The background is a plain, light-colored wall.

**Understanding your finances is crucial when you own a salon or spa. If you need support in this area, don't hesitate to get in touch with us at The Beauty Biz Agency. We're here to assist you.**

# Thank You!

We hope you find this resource valuable and that it helps you take steps toward creating your dream business.

## **Dream Big, Work Smart**

Imagine having a salon that runs smoothly with or without you there – a business that not only fulfills your vision but is also highly profitable. It's possible, and The Beauty Biz Agency is here to help you make it happen.

## **Ready to Level Up?**

If you're ready to:

- Eliminate the stress of running your salon or spa,
- Increase your revenue and profitability, and
- Build the business you've always dreamed of...

Let's Talk!!

Book a Free Strategy Call with our team to:

- Get a personalized business audit.
- Receive a step-by-step game plan tailored to your goals.

## **Book Your Free Strategy Call Here**

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Thank you for trusting us to support your journey. Let's work together to create the salon or spa of your dreams!

