

PUBLICATIONS TO HELP YOU
UNDERSTAND AND MEET YOUR
TAX RESPONSIBILITIES

Business Tax Guides

- **Publication 454** –
*Your Business Tax Kit -
Publications and forms needed to start a
business.*
- **Publication 334** –
*Tax Guide for Small Business
Publication to help small businesses.*
- **Publication 583** –
Starting a Business and Keeping Records
- **Publication 505** -
*Tax Withholding and Estimated Tax
When and how to compute and file estimated
taxes.*

Worker Classification

- **Publication 1779** –
*Independent Contractor or Employee?
Factors used in determining status*
- **Publication 15A** –
Employer's Supplemental Tax Guide
- **Form SS-8** –
*Determination of Employee Work Status for
Purposes of Federal Employment Taxes and
Income Tax Withholding*

Tip Reporting

- **Publication 531** –
Reporting Tip Income
- **Publication 1244** –
Employee's Daily Record of Tips...
- **Publication 3148** –
*Tips on Tips, a Guide to Tip Income
Reporting*
- **Tip Reporting Alternative Commitment**
*Contact the local IRS office Tip Coordinator
to sign up for this voluntary educational
program. Coordinator's phone numbers are
listed on the IRS Internet Web Site (see
below).*

Other Educational Services

- **Publication 1796** –
*Federal Tax Products
CD-ROM – for most forms and publications*
- **IRS Internet Web Site** –
*<http://www.irs.gov>
for most publications and forms online*
- **IRS TaxFax Services**–
(703) 368-9694 for forms to be faxed to you
- **1-800-Tax-Form**
*for forms and publications to be mailed to
you*
- **1-800-829-1040**
for more information

BEAUTY & BARBER INDUSTRY FEDERAL TAX GUIDELINES



Department of the Treasury
Internal Revenue Service

www.irs.gov

Publication 3518 (Rev. 5-2000)
Catalog Number 73164X

Beauty & Barber Business owners structure their business in various ways. Workers choose shops with the business arrangement that best suits them. This brochure describes the Federal tax responsibilities owners and workers must consider for the most common business arrangements. If you are not sure of what your responsibilities are, this brochure can help you.

AS A BOOTH RENTER,

you are running a small business...

- Report all income (including tips) on the appropriate income tax form such as Schedule C, Form 1040, *U.S. Individual Income Tax Return*.
- Social Security and Medicare Taxes must be paid on Schedule SE (Form 1040) or Form 941, *Employer's Quarterly Federal Tax Return*, as appropriate.
- Deduct allowable expenses on the appropriate income tax return including rent, supplies and utilities.
- Issue Form 1099-MISC for business rent paid of \$600 or more to non-corporate landlords each year.
- Issue a Form 1099-MISC or Form *W-2, Wage and Tax Statement*, to your workers.
- Estimated taxes must be paid each quarter on Form 1040ES, *Estimated Tax for Individuals*.

AS AN EMPLOYEE...

- Report taxable income on Form 1040. Taxable income includes all tips, wages, payments for services and commissions for product sales:
 - from all employers,
 - made by check or cash,
 - whether or not included on Form W-2 or Form 1099-MISC.
- Report tips of \$20 or more received in one month to your employer. Tips not reported to the employer should be included on Form 4137, *Social Security and Medicare Tax on Unreported Tip Income*, and reported on Form 1040.

AS AN INDEPENDENT CONTRACTOR...

You may have an arrangement with business owners to provide services and receive a Form 1099-MISC showing payments to you by the owners. Examples may include a hairstylist, aesthetician, massage therapist, and nail technician. You must report Form 1099-MISC income and any tips you receive on the appropriate income tax return such as Schedule C, Form 1040. The income would then be subject to self-employment tax (Social Security and Medicare) and reported on Schedule SE. If required, you should pay estimated taxes on Form 1040ES.

Review the factors in the next section of this publication. If you are not sure whether you are an employee or independent contractor, send the completed Form SS-8, *Determination of Employee Work Status*, to the IRS for a determination.

AS A BUSINESS OWNER...

- Review the factors involved in worker classification to assure proper tax treatment:
 - ✓ Behavioral Control
 - ✓ Financial Control
 - ✓ Relationship of the PartiesYou may be responsible for withholding and paying employment taxes and reporting worker's income on Form W-2 if the worker is not properly classified as a booth renter or independent contractor.

- Factors that may indicate the worker is an employee and not an independent contractor:
 - Required uniforms
 - Required hours
 - Does not handle own sales receipts
 - Does not make own appointments
 - Owner provides training
 - Owner provides towels/smocks
- Factors that may indicate the worker is an independent contractor and not an employee:
 - Has key to the shop
 - Makes own schedule
 - Buys own products
 - Has own phone number
- The IRS *Tip Reporting Alternative Commitment (TRAC)* can help employers provide tip education to employees.

THE PENALTY FOR FAILURE TO PAY OR FILE TAX CAN BE AS HIGH AS 75% OF TAX DUE IF WILLFULLY NEGLIGENT OR FRAUDULENT!

THE PENALTY FOR NOT REPORTING TIPS TO AN EMPLOYER IS EQUAL TO 50% OF THE SOCIAL SECURITY AND MEDICARE TAX DUE ON THOSE TIPS!