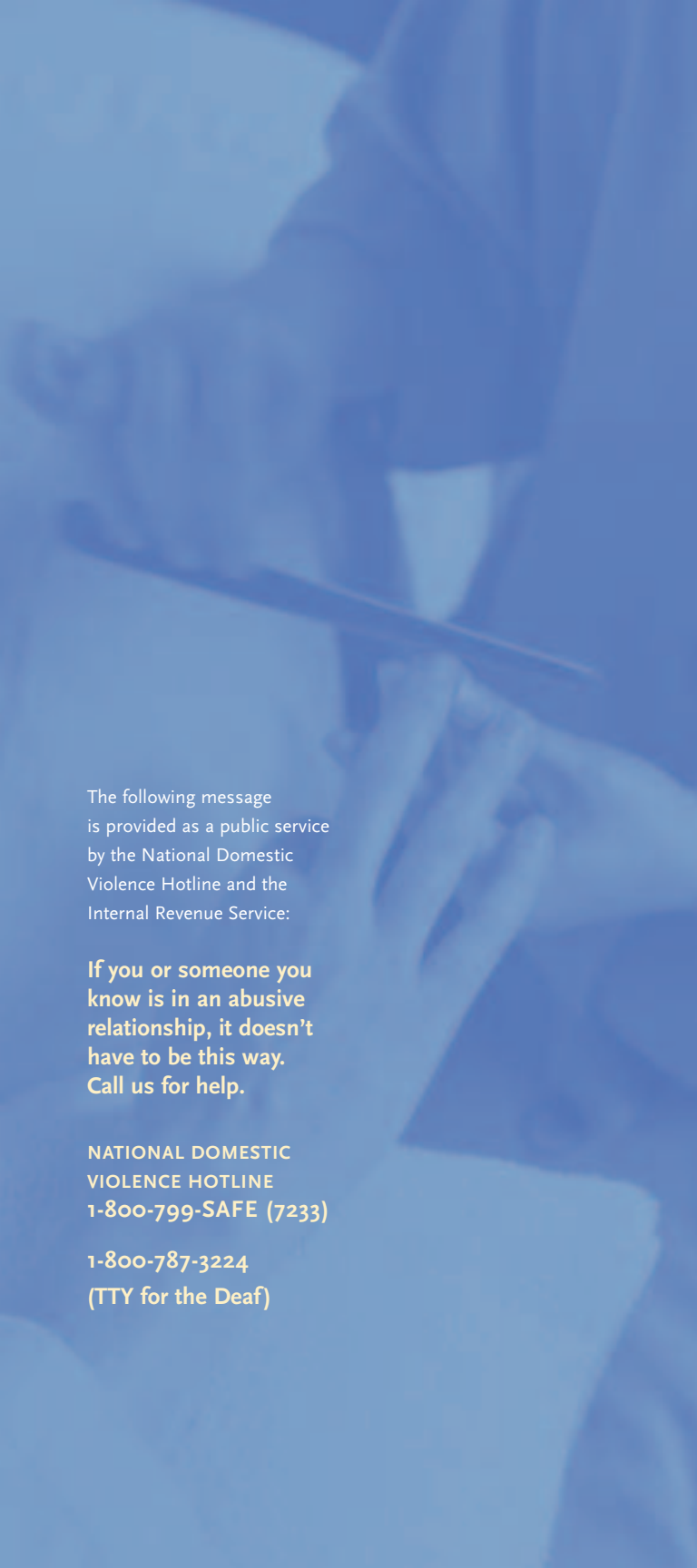




Beauty,  
Barber, &  
Cosmetology  
Industries





The following message  
is provided as a public service  
by the National Domestic  
Violence Hotline and the  
Internal Revenue Service:

**If you or someone you  
know is in an abusive  
relationship, it doesn't  
have to be this way.  
Call us for help.**

**NATIONAL DOMESTIC  
VIOLENCE HOTLINE  
1-800-799-SAFE (7233)**

**1-800-787-3224  
(TTY for the Deaf)**



# B

eaauty and barber

business owners have choices on how they can structure their business: with workers as **BOOTH RENTERS** or as **EMPLOYEES**. At the same time, workers can choose a shop that operates with renters or employees. This brochure describes the different federal tax responsibilities for owners and workers depending on the choice they make.

# Business Owner

As a business owner in the beauty and barber industries, you may be responsible for withholding and paying employment taxes (social security and Medicare taxes) and reporting worker's income on Form W-2, *Wage and Tax Statement*, if the worker is not properly classified as a booth renter or as an independent contractor. For federal tax purposes, you need to review the factors that will help you determine the correct classification status for workers in your business. These factors fall into three categories: behavioral control (whether there is a right to direct or control how the worker does the work); financial control (whether there is a right to direct or control the business part of the work); and relationship of the parties (how the business and the worker perceive their relationship—employee benefits, written contracts).

- Factors that may indicate that the worker is an employee and not an independent contractor include: worker is required to wear a uniform; worker has required work schedule/hours; workers do not handle their own sales receipts; workers do not make their own appointments; owner provides training; owner provides towels/smocks.
- Factors that may indicate the worker is an independent contractor and not an employee include: worker has key to shop; workers makes their own schedule; workers buys their own products; workers have their own business phone number.

The IRS *Tip Reporting Alternative Commitment (TRAC)* arrangement includes a commitment by the employer to educate tipped employees of their statutory requirement to report tips to their employer. This agreement also requires the owner to provide federal tax education materials to booth renters. Call your local IRS office for detailed information on TRAC.

## Booth Renter

If you rent a booth in a salon/shop, you are “running a small business” and the following filing responsibilities may apply:

- All income (including tips) must be reported on the appropriate income tax form such as Form 1040, *U.S. Individual Income Tax Return*, Schedule C.
- Social security and Medicare taxes must be paid using Form 1040 Schedule SE or Form 941, *Employer's Quarterly Tax Return*, as appropriate.
- All allowable expenses are deductible on the appropriate income tax return and may include rent, supplies, and utilities.
- Form 1099-MISC must be issued if rent paid to non-corporate landlords is \$600 or more per year.
- Form 1099-MISC or Form W-2 must be issued to your workers.
- Estimated taxes may be required to be paid each quarter on Form 1040ES, *Estimated Tax for Individuals*.

# Employee

As an employee in the beauty and barber industries, your federal tax responsibilities are:

- All taxable income must be reported on Form 1040. Taxable income includes all tips, wages, and payments for services and commissions for product sales from all employers, paid by check or cash, that may or may not be included on Forms W-2 or 1099-MISC.
- All tips of \$20 or more received in one month must be reported 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.

**NOTE:** THE PENALTY FOR FAILURE TO PAY OR FILE TAXES CAN BE AS HIGH AS 75% OF THE 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 TAXES DUE ON THOSE TIPS.



# Independent Contractor

As an independent contractor in the beauty and barber industries, you may have an arrangement with a number of business owners where you provide services, and receive a Form 1099-MISC showing payments you received from the owners. The services may include: hairstylist, aesthetician, massage therapist, and nail technician. For federal tax purposes, remember:

- Form 1099-MISC income, cash, check, credit card and tip income you receive must be reported on the appropriate income tax return such as Form 1040 Schedule C. The income would then be subject to self-employment tax (social security and Medicare taxes) and reported on Schedule SE.
- If required, you should pay estimated taxes on Form 1040ES.

If you are not sure whether you are an employee or an independent contractor, call the IRS at 1-800-829-3676 for a free copy of IRS Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding*. Follow instructions on the Form for completion and mailing. For a quick reference to determine your worker classification, view the factors noted in the **Business Owner** section of this brochure.

# IRS Tax Publications & Forms

The following provide additional information on employer and employee tax topics. You can order free copies of IRS publications and forms through the IRS by calling 1-800-829-3676. Also, many IRS publications and forms are available through the Internet at **[www.irs.gov](http://www.irs.gov)**.





## **BUSINESS TAX INFORMATION**

- 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*

## **WORKER CLASSIFICATION INFORMATION**

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

## **TIP INCOME REPORTING INFORMATION**

- Publication 531, *Reporting Tip Income*
- Publication 1244, *Employee's Daily Record of Tips*
- Publication 3148, *Tips on Tips, a Guide to Tip Income Reporting*

Contact your local IRS Taxpayer Education and Communication Office to sign up for Tip Reporting Alternative Commitment (TRAC) by going to [www.irs.gov/localcontacts/index.html](http://www.irs.gov/localcontacts/index.html).

# IRS Electronic Information Services

You can access IRS forms, publications, recorded information, and one-on-one assistance through the following vehicles:

- **www.irs.gov**
- IRS Tax Fax: Dial 1-703-368-9694 from a fax machine, follow voice prompts to get IRS tax forms w/instructions faxed back to you.
- IRS tax publications and forms:  
Call 1-800-Tax-Form (1-800-829-3676).
- IRS TeleTax: Call 1-800-829-4477 for recorded tax information and automated refund information. Available in Spanish.
- Publication 1796, *Federal Tax Products on CD-ROM*: Call National Technical Information Services (NTIS) at 1-877-233-6767.
- Publication 3207, *Small Business Resource Guide 2003*: Order online at **www.irs.gov**.
- Tax Assistance: Call the IRS at 1-800-829-1040.



*When it comes to  
working harder for you,  
consider it done.*



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Department of the Treasury  
**Internal Revenue Service**

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[www.irs.gov](http://www.irs.gov)

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Publication 3518 (Rev. 2-2004)  
Catalog Number 73164X

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