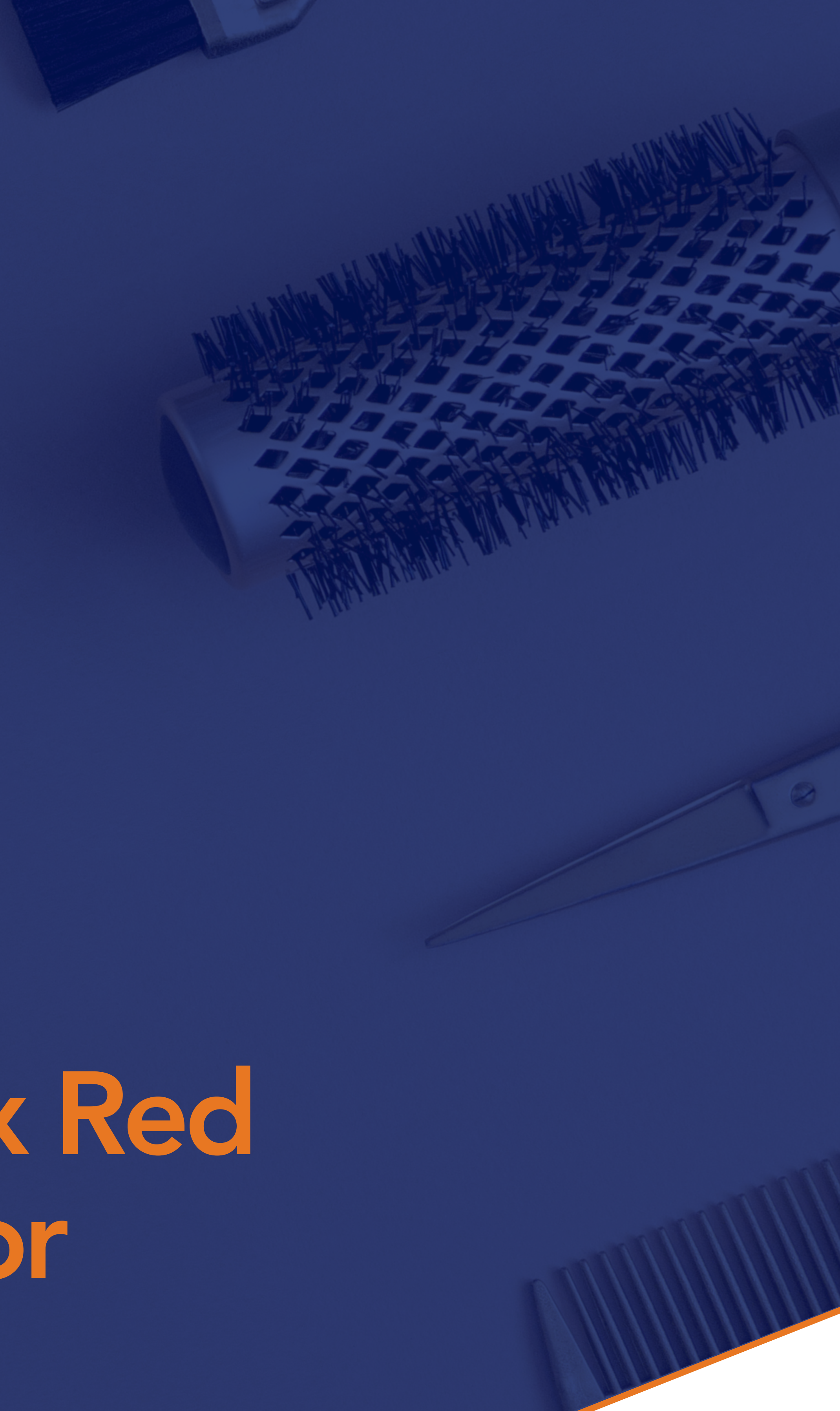

Ten Tax Red Flags for Salon Owners

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1. No tip credit on income tax return

- The FICA Tip Credit is available starting in 2025 for salons and other beauty industry businesses.
- If you own a salon that is a S Corporation, you should have a Form 3800 in your personal tax return claiming this credit.
- This credit essentially makes you whole after the salon pays payroll taxes on the tips that go directly to employees.
- To fix this – ensure you have tips reported on your Form W-2s and then reach out to your tax professional who prepared your tax return.

2. W-2 for any owners who are filing Form Schedule C or Partnership Form 1065

- Schedule C salons cannot pay wages to the owners.
- Form 1065 partnerships cannot pay wages to the owners, they would instead pay guaranteed payments which are similar to wages.
- IRS prohibits a Schedule C or 1065 from paying W-2 wages to owners.
- To fix this - immediately stop paying wages.

3. Vehicles with less than 50% business use

- Vehicles are a highly audited risk area by the IRS.
- Business use does not include your commute (home to salon in most circumstances)
- The IRS will ask for a mileage log that documents where you went, how many miles, and the business purpose of each trip. Many owners do not have this readily available.
- To fix this - remove the vehicle from the business and charge a mileage reimbursement for business miles incurred.

4. Multi-owner salon and distributions are not based on ownership percentage

- If salon is taxed as a S Corporation and distributions are not paid to all owners at the same time and not based on ownership percentages, this will cause tax issues by putting the S Corporation status at risk and cause owner disputes.
- To fix this – map out what has been done and come up with a plan to get back on track by recording payables or receivables for what is due to each owner.

5. Salon is paying for personal expenses

- This puts you at tax risk but also could put you at legal risk because you could become personally responsible for business debts and liabilities.
- To fix this – use only the business accounts for business transactions going forward and verify the classification of personal expenses on the financial statements.

6. No monthly Profit & Loss statement

- If you are not keeping track of your income and expenses and review it monthly, you are running your business blind and are missing out on opportunities.
- To fix this – hire a bookkeeper to do this for you so you can focus on what you are good at – running a salon!

7. No estimated tax payments have been paid and there is a profit

- Estimated tax payments to the IRS and your state (if you live in a state with income tax) need to be paid throughout the year as profit is earned or you are likely paying penalties at tax time that could have been avoided with tax planning.
- To fix this – Look at your prior year tax return and look at your total Federal tax and state tax. Then subtract any withholdings already paid. Take this number and divide by 4 and pay that amount each quarter. If your AGI (Adjusted Gross Income) is more than $150,000 as a married person ($75,000 single) then take that number and multiply it by 110% and then divide by 4 and pay that amount each quarter.

Estimated tax payment due dates are (depending on holidays and weekends):

i. 4/15
ii. 6/15
iii. 9/15
iv. 1/15

8. Sales tax is not being reported or paid

- Most states charge sales tax on retail product sales so sales tax needs to be reported and paid.
- To fix this – start reporting and paying sales tax. Reach out to your POS provider and get the proper items setup and reach out to your CPA and state to get registered to learn how to report and pay the sales tax.

9. No tax planning is done before year end

- You could be missing out on deductions and strategic planning if you do not reach out to a tax professional before year end. It can also help you plan and prepare for taxes that may be due.
- To fix this – reach out to your CPA to do tax planning.

10. Not filing on time (including extensions)

- Many salons are S Corporations and there are penalties for not filing on time whether you are a S Corporation or not. S Corporations have a monthly penalty of $235 that is multiplied by the number of shareholders up to 12 months.
- To fix this – make this your primary task and get together your relevant information so you can file on time and avoid penalties.

Disclaimer: Each business scenario is unique, and tax regulations are subject to change. Therefore, it is imperative that salon owners seek the guidance of a Certified Public Accountant (CPA) who is well-versed in the nuances of the salon industry prior to implementing any business modifications.

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Chris, head of Boyum Barenscheer's Tax Department, specializes in the salon industry, which was particularly impacted by COVID-19. He expertly guided clients through complex tax legislation, implementing crucial relief programs like PPP loans and the Employee Retention Credit (ERC). Chris is dedicated to developing customized strategies and resources that empower salon owners to better understand their financial landscape, driving stability and growth in their businesses.

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Tracy Stevens is a leader in business advisory services, specializing in tax, consulting, and outsourced solutions with a focus on the salon industry. Having grown up in a family business, she deeply understands the unique challenges faced by small business owners. Tracy is passionate about helping clients navigate their accounting and tax needs while learning the intricate details of their businesses and how they've evolved over time. She finds fulfillment in building strong relationships and contributing to the success of her clients.

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