



TIP CREDIT FOR SALONS

Starting in 2025 the tip credit is available for salons and other beauty industry businesses like barbershops, spas, and nail salons.

What is it?

The tip credit is how the IRS makes you whole after the salon pays payroll taxes on the tips that go directly to employees.

How is it calculated?

The tip credit is 7.65% of the reported tips. This is equal to the amount of payroll taxes the salon paid on the tips.

Where do you claim the credit?

The credit is calculated by the business, and then flows through to the individual owners. The owner claims the credit on their Form 1040.

Example:

Salon with \$1,000,000 in sales for the year might have \$100,000 of reported tips. That salon would generate a \$7,650 tip credit for the owners.

Fine Print:

The tip credit is claimed on Form 8846 by the business, and then flows to Form 3800 on the individual return. The tip credit amount is a nonrefundable credit, so the credit can only offset your income taxes down to \$0, but if the credit is more than your income tax liability the remainder must be used to carry back 1 year or carry forward 20 years until it is used.

Salon Expertise:

Learn about our salon membership to help salons that want to take control of their financial future. If you have to tell your CPA about the tip credit then you need a new CPA, one that knows about the salon industry and the current tax law. The salon team at Boyum can be found by going to www.salon.cpa and we would love to help you. Serving salons is what we do best.

Contact Us:

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