



Support the Small Business Tax Fairness and Compliance Simplification Act H.R. 6736

Background:

In 1993, Congress granted the restaurant industry a dollar-for-dollar tax credit – now known as the 45(b) tax tip credit – on the employer’s share of FICA taxes paid on tip income above the minimum wage. This policy was instituted because Congress recognized that tips are a gratuity paid to wait staff by the customer, and employers should not be responsible for paying FICA taxes on tip income that was not paid by them. Employers in the professional beauty industry are not currently eligible to receive the 45(b) tax credit, even though their employees, like the restaurant industry, earn a large portion of their income through tips received directly by employees – not by the salon.

Congress Can Support America’s Economy, Improve Tip Reporting, and Promote Tax Fairness!

Support a vital and growing sector of America’s Economy. Job growth in the salon industry has outpaced the overall U.S. economy in 16 of the last 18 years. According to the Bureau of Labor Statistics, the number of personal appearance jobs is projected to increase 13 percent between 2016 and 2026, which is nearly double the projected 7 percent growth in total U.S. employment during the same period. Even so, this industry is not immune to economic challenges. **Extending the existing 45(b) tax tip credit to salons will help this vibrant and important sector.**

Improve Tip Reporting. Although non-employer salons comprise 92 percent of establishments, their reported sales represent only 49 percent of total salon industry revenues, implying a significant underreporting of income in the non-employer segment. **This legislation includes two provisions which may reveal a valuable new source of tax revenues for the federal government by** (1) allowing an Employer Tip Reporting Safe Harbor from an IRS tip audit if the employer establishes an educational program for new employees regarding the proper reporting of tip income, establishes a procedure for employee tip reporting, complies with all rules, and employee records relating to tipping are maintained for at least four years, and (2) simplify and coordinate efforts regarding information reporting of income between rental space owners and renters providing professional beauty services.

Promote Tax Fairness. Tips to restaurant employees should not be treated differently from tips to salon employees. These two industries share tip reporting burdens, but do not share the relief granted by Congress to the restaurant industry 25 years ago.

Help Small Businesses. Small businesses are the backbone of America’s economy and the salon industry is an industry of small businesses. According to the U.S. Census Bureau, fifty-eight percent of Salon-Industry establishments (with payroll employees) have fewer than 5 employees, while 83 percent of establishments have fewer than 10 employees. **Extending the 45(b) tax credit to salon owners would allow them to reinvest in their businesses and employees, granting new economic and employment opportunities in their local communities. Additionally, the salon industry is vitally important to the success of many other industries in the economy.**

Support the Small Business Tax Fairness and Compliance Simplification Act, H.R. 6736