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# H.R.45 | S.45

## Small Business Tax Fairness and Compliance Simplification Act

Congressman Darin LaHood and Congresswoman Suzan DelBene  
Senator Ben Cardin and Senator Tim Scott

## HISTORY

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- A tip is a monetary transaction between a client and their service provider. The business owner who employs the service provider does not receive any profit from the tips, yet that business owner is responsible for paying the employer portion of FICA taxes on the tips.
- Since 1993, under Code §45B, restaurant owners have received a dollar-for-dollar tax tip credit on the employer's share of FICA taxes paid on employee tips. Access to this credit is limited to tips received for providing, serving, or delivering food or beverages in the restaurant industry.

## PROBLEM

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For three decades, professional beauty employers have been unfairly denied access to this existing tax credit available to other employers with tipped employees.

## SOLUTION

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Congress should pass H.R.45 | S.45 to address this inequity and provide parity to beauty industry employers by granting access to the §45B tax tip credit.

## SMALL BUSINESS TAX FAIRNESS & COMPLIANCE SIMPLIFICATION ACT:

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- **H.R.45|S.45** will allow professional beauty industry small business employers access to the existing §45B tax credit. This bill expands the tax credit for a portion of the employer-paid Social Security taxes for employee cash tips to include beauty service establishments.
- The credit applies to tips received in connection with providing beauty services including barbering and hair care, nail care, massage, esthetics, and body and spa treatments.
- The bill establishes an employer tip reporting safe harbor for beauty service establishments. The employer tip reporting safe harbor for beauty service establishments provides an exemption from certain IRS tip examinations for employers who meet requirements for educational programs, reporting procedures, compliance with tax law, and recordkeeping

# BENEFITS

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- Employers will utilize the credit to reinvest in their business by providing additional employee benefits, expanding job opportunities, and conducting additional training.
- Employees will have increased retirement security and other benefits
- Extending the existing \$45B credit to beauty industry businesses will help encourage the payment of income and employment taxes to the IRS. Moreover, employees will be properly credited for FICA paid on the employee's tip income, ensuring proper Social Security benefits.
- Business owners will be relieved of financial uncertainty caused by the need to set aside thousands of dollars each year to anticipate taxes on tips.

# DATA POINTS

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- Beauty industry establishments are predominantly women and minority-owned small businesses.
- These small businesses, owned 60% by women and 34% by minorities, provide entry-level jobs and employ a workforce of roughly 1.2 million professionals.
- Overall employment of barbers, and cosmetologists is projected to grow 19% from 2020 to 2030.
- There are 112,149 employment-based salons in the United States.
- Of the 1,179,000 professional beauty industry employees in the United States, 85% are women, 12% are African American, 20% are Asian, and 18% are Latino.

*\* Source: U.S. Census Bureau, and Bureau of Labor Statistics.*

# MORE INFORMATION:

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Resources:

H.R.45 Small Business Tax Fairness and Compliance Simplification Act:

**<https://www.congress.gov/118/bills/hr45/BILLS-118hr45ih.pdf>**

S.45 Small Business Tax Fairness and Compliance Simplification Act

**<https://www.congress.gov/118/bills/s45/BILLS-118s45is.pdf>**

Website: FICA Tax Tip Legislation

**<https://www.probeauty.org/advocacy/fica>**

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