

Know Your Tax Obligation

The barbering and cosmetology industry offers a number employment options. A licensee may own his or her own business, or work for someone else at their shop. Or he or she may simply rent a booth and function as an independent contractor. One thing all these options share with each other and all jobs is a tax obligation because all income is taxable, according to the U.S. Internal Revenue Service (IRS). It's important to be familiar with the tax rules for your particular situation.

If you're directly employed by a shop, then your situation is likely familiar to you: your employer will record your pay on a W-2 Wage and Tax Statement that you will receive at the end of the calendar year. It is the responsibility of the employee to report their tips to the employer for inclusion on the W-2.

If you're a shop owner, then you will be responsible for recording all income and expenses at your salon, as well as the wages of any employees and taxes they have paid. You will also need to collect and pay sales taxes.

If you're an independent contractor such as a booth renter, you will be responsible for recording all income and expenses as well as the filing of returns and payment of taxes related to the business.

The IRS maintains a Web site that caters to small businesses such as salons: www.irs.gov/smallbiz. Be aware that as a business owner you may also be responsible for state and local taxes, in addition to your federal obligation. For more information, visit the California Tax Information Center at www.taxes.ca.gov.

While no one likes to pay taxes, there are benefits to reporting one's income accurately. These include:

- An improved financial profile for loans based on earnings, such as mortgage and auto loans;
- Greater Social Security, Medicare, Workers' Compensation and unemployment benefits;
- Possibly qualifying for the Earned Income Tax Credit.