

## CRITICAL RELIEF FOR SMALL BUSINESS SALONS

**Proposal:** *Provide a lifeline to salons by temporarily extending the Section 45B FICA tax tip credit in H.B. 1349/S. 2634 to the salon industry, effective 1/1/2015.*

- **Salons are predominantly women and minority-owned small businesses**
  - The salon industry is primarily comprised of small businesses – 83% of the 1.2 million establishments have fewer than 10 employees.
  - These small businesses, owned 60% by women and 34% by minorities, provide entry-level jobs and employ a workforce of roughly 1.3 million professionals.
  - 99.7% of salons have been closed completely for more than a month. Most stylists are women whose children are home from school, with limited sources of income for food, housing and bills.
  
- **Extending Section 45B, currently available to restaurants, to the beauty industry would provide critical liquidity to salons employers, enabling them to reopen and operate their businesses as employer-based salons**
  - With 99.7% of salons closed for over a month, the salons industry is under tremendous financial strain. Most salons only had resources to pay employees for a few weeks and without critical access to liquidity may never reopen.
  - Salons are generally not permitted to reopen in the first phase and survey results show 93% of salons will be required to reopen on a “phased” or “partial” basis.
  - Survey results show that 94% of salons expect to have new state requirements (costs) regarding PPE equipment, cleaning requirements and/or insurance.
  - Not all salon small businesses have been able to receive loans, but among the small business owners that received a PPP loan, 37% are worried they will not meet forgiveness eligibility and 29% do not believe they will be able to use the funding in the time allocated due to the phased in re-opening in their state.
  - Only 53% of salons believe they have the financial resources to reopen.
  
- **The employer-based model in the salon industry is shrinking as salon professionals move to freelance work arrangements**
  - There is tremendous pressure on salon professionals to move to freelance situations where there are fewer rules, regulations and tax reporting oversight.
  - Providing these small business salons with the Section 45B FICA tax tip credit would provide liquidity to reopen their businesses and pay employees, with a source of funds in the future to repay loans and keep their businesses open.
  - When salons are able to reopen, they will have an easier time retaining their employees because they will have certainty that the FICA tax imposed on tips their employees receive from third parties (these tips are not revenue for the business) will be reimbursed and will not increase their financial burden.