

FAST FACTS ABOUT THE SECTION 45B FICA TIP TAX CREDIT

We strongly urge you to co-sponsor H.R. 45/S. 45, the *Small Business Tax Fairness and Compliance Simplification Act* which:

- Extends the FICA tip tax credit to the beauty/barbershop sector;
- Provides a small business owner with a safe harbor from an IRS exam with respect to beauty/barbershop employee tips, where that small business owner meets certain requirements; and
- Simplifies and improves information reporting compliance related to self-employed professionals in the beauty/barbershop sector.

This legislation would finally give the tens of thousands of employer-based beauty/barbershop service establishments access to this credit, which is designed to reduce the compliance burdens on these small businesses while simultaneously increasing tip reporting accuracy.

- **PARITY:**
 - Extending the existing 45B FICA tip tax credit, currently available to the restaurant industry, to the beauty/barbershop sector would help offset the cost of compliance burdens and improve tip reporting accuracy.
 - This legislation would increase tax fairness to small business owners by treating similarly situated employers in the same manner through modernization of the 45B FICA tip tax credit.
- **RELIEF FROM FINANCIAL PRESSURES:**
 - Tips are paid directly from the client to employees. Employers pay FICA taxes on this tip income even though they are not party to the tipping transaction, and never see a cent of that tip income.
 - This credit helps offset the cost of that compliance on monies employers never control AND by employees properly reporting tips and contributing to FICA, it helps ensure their access to Social Security.
- **PROTECTION AGAINST UNFAIR AUDITS:**
 - With the recent expansion in IRS funding, small business employers are more fearful than ever of costly audits.
 - Using IRS's own criteria to create a safe harbor to protect against tipping audits, employers can focus on running their businesses.
- **AIDS SMALL BUSINESSES STRUGGLING TO RECOVER FROM THE PANDEMIC:**
 - The majority of beauty industry establishments are small businesses, with 83 percent employing less than 10 individuals.
 - Salons, spas, and barbershops employ women and minorities at a rate two times higher than the national average.
 - Extending an existing credit to these employers will help improve tax compliance and allow these employers to grow their business and provide for their employees.