

Welcome to the Business Deductions Guidelines for hair salon owners. This document is designed to help you navigate the various business deductions available to you, including cost of goods sold, benefits expenses, advertising, auto expenses, and more. Each section provides detailed information on what can be deducted and any specific conditions or limitations. Understanding these deductions can help you maximize your tax savings and ensure compliance with IRS regulations.

From the IRS: To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or business.

Links:

[IRS Pub 535: Business Expenses](#)

[IRS Pub 463: Travel, Gift and Car Expenses](#)

[IRS Topic 509: Business Use of Home](#)

Cost of Goods Sold

- Cost of products, supplies, freight
- Storage
- Wages, tips, and bonuses paid to employees who produce the products
- Payroll taxes related to wages and tips paid to employees
- Tools and small equipment – anything that costs less than \$2,500
- Uniforms – uniforms or clothing that are specific to your profession and not suitable for everyday wear

Benefits Expense

- Retirement Contributions paid by the salon on behalf of employees– common plans are 401k and SIMPLE IRAs
- Health insurance premiums paid by the salon on behalf of employees

Advertising

- Marketing
- Promotional
- Website

Auto Expenses

- If a vehicle is exclusively used for business (e.g., delivery or specialized vehicle), you can deduct the actual expenses. If the vehicle is used for both business and personal purposes, consult with your tax professional. Commuting expenses between your home and business location are not deductible.
- Actual Costs include depreciation, lease payments, gas, oil, tires, repairs, insurance, registration fees.
- If your vehicle is not primarily used for business, you can reimburse yourself or employees based on the IRS Standard Mileage rate. More information can be found [HERE](#).

Bank Fees

- Monthly or one-time bank charges
- Merchant Processing Fees

Business Licenses and Permits

- Fees paid to state or county required to operate the business

Charitable Donations

- Donations made to 501c3 organizations

Dues & Subscriptions

- Fees paid to various vendors for software or other subscriptions

Education

- Costs associated with classes, seminars, or conventions to maintain or enhance skills are deductible. This includes travel expenses related to education

Gifts

- IRS specifies a limit of \$25 per person

Employee Achievement Awards

- Can be up to \$1,600 per employee under a qualified plan (nonqualified limit is \$400) but the award needs to be tangible property and need to be given for a length of service award and can only be given once every 5 years to an employee

Insurance

- Business liability
- Property
- Unemployment

Interest

- Interest portion paid on a loan or to a credit card

Internet Expense

- Internet connection necessary to support operational needs

Office Expenses

- Office supplies or items necessary for administrative tasks
- Business cards

Meals & Entertainment

- Business can pay for a meal or event but the deductible amount on your tax return may vary
- Purpose has to be for business and who benefits from the meal determines on how much can be deductible
- 100% deductibility – holiday party for all employees, free food and beverage provided at an event to public, meals with employees when at least 50% of your employees are present, entertainment at a holiday party
- 50% deductibility – meals with vendors, meals with prospective clients, meals with employees when there are less than 50% of your employees present, meals while you are traveling for a business purpose, office snacks
- 0% deductibility – concert or sports tickets for entertainment

Professional Fees

- CPA, bookkeeping, attorney expenses

Rent/Lease

- Rent paid on leased property

Repairs/Maintenance

- Repairs necessary for salon equipment or physical space

Taxes

- Real Estate
- Excise
- Franchise
- Occupational
- Personal Property
- State taxes – consult a tax professional to make an election

Travel

- Costs must be associated with employee/business associate travel or person with a bona fide business purpose for their presence. May be limited based on primary purpose of trip –
 - Primary Business purpose – All business expenses fully deductible
 - Primary Business + Personal activities – Travel costs to and from business destination and any business related expenses at business destination.
 - Primarily Personal + Business activities – Travel costs not deductible, business expenses while at destination may be deducted
- Lodging
- Meals (see above for more information)
- Transportation

Telephone

- Phone lines used for client communication and appointment bookings

Utilities

- Electricity, water, gas, heating directly related to salon's operation

Capital Expenses (Assets)

- Startup costs
- Large items that you can use for more than 1 year and cost more than \$2,500
- Salon Renovation costs
- Salon furniture
- Shampoo bowls

Home Office

To qualify for home office deductions, you must use part of your home for one of the following:

- Exclusively and regularly as your principal place of business.
- Exclusively where you meet and deal with clients or customers in the normal course of your trade or business.
- A structure not attached to your home used exclusively and regularly in connection with your trade or business.
- Regularly for storage of inventory or product samples used in your trade or business of selling products at retail or wholesale.
- For rental use.

Methods for calculating home office deductions:

- Regular Method: Deduct the business percentage of actual expenses of your home, including repairs, mortgage interest, rent, property taxes, utilities, and insurance.
- Simplified Method: Deduct \$5 per square foot of the business portion of your home (maximum 300 square feet).

To properly claim a home office deduction, please consult a tax professional since they can be limited and/or require an accountable reimbursement plan depending on your tax situation.

In summary, this guide provides essential information on the various business deductions available to hair salon owners. By understanding and utilizing these deductions, you can reduce your taxable income and improve your salon's financial health. Remember to consult with a tax professional to ensure you are taking full advantage of all available deductions and staying compliant with IRS regulations. With careful planning and proper documentation, you can make the most of your business expenses and focus on growing your salon.

