July 9, 2020

Dear Member of Congress:

I write in support of H.R. 1349/S. 2634, the “Small Business Tax Fairness and Compliance Simplification Act,” bipartisan legislation sponsored by Representatives Darin LaHood (R-Ill.) and Susan DelBene (R-Wash.) and Senators Rob Portman (R-Ohio) and Ben Cardin (D-Md.). This legislation provides parity to the beauty service industry by extending the 45B tip tax credit to these businesses. All members of Congress should support this legislation.

The 45B tip tax credit allows restaurants and food service establishments to claim a credit to offset the 7.65 percent they pay for FICA and Medicare withholdings collected on employee tips. Since restauranteurs make no money on tips paid directly to employees, it makes sense that employers receive a tax credit for payroll tax they owe on that income.

This legislation would extend the 45B tip tax credit to over 1.2 million businesses in the beauty service industry, including barbers and salons, nail care, aesthetics, and body and spa treatments. It would provide parity with the restaurant industry and could provide thousands of dollars in tax savings per year for these businesses.

The legislation also provides tax simplification through a reporting safe harbor that provides an exemption from IRS examinations for employers who meet certain requirements for educational programs, reporting procedures, compliance with tax law, and recordkeeping.

The Small Business Tax Fairness and Compliance Simplification Act is especially timely because the beauty service industry – comprised largely of small businesses owned by women and minorities – has been hit especially hard by COVID-19. State and local governments uniformly shuttered the industry for months.

Even though many restrictions have been eased, the services the industry provides, like hair and nail care, make the 6-foot social distancing recommendation particularly difficult to follow.

Salons in the reopening process are now facing capacity limits and stringent sanitation requirements. Generous customers are also tipping extra to compensate for lost tips during the shutdown, inadvertently increasing the FICA tax burden for employers that are already facing sharp declines in revenue.

This situation only increases the need for 45B parity so that struggling beauty service businesses have liquidity during this economic downturn and are not being saddled with unnecessary taxation and reporting requirements.

As our economy continues to safely reopen, enacting the “Small Business Tax Fairness and Compliance Simplification Act” will provide tax reduction and parity for salon owners and help small businesses through the pandemic.

Onward,

Grover Norquist
President, Americans for Tax Reform