

“Why are more Salon and Spas being audited in the U S?”

We are seeing more and more salons and spa's being audited today than ever and it is only the tip of the iceberg. There are several reasons for this frustrating challenge as more and more business owners in the beauty industry are contacting us to help assist them through this maze of devastation. Whether it's the IRS, your one State or a Judge. First I will tell you that the government is broke on all levels. It does not take a rocket scientist to figure that out as we are all affected by that issue today. But when these governments need \$ they will go to where they can find it, in any way they can. Our industry is a prime candidate to recover those dollars as most in the beauty industry have no real legal structure at all when it comes to having employees, booth renters or I/C. When a business is set up correctly with a legal foundation it will protect your financial investment at the same time. Providing that one lives by that agreement / contracts with their staff's on a day to day involvement, regardless what we call them you know like having booth renters or I/C, (Independent Contractors).

So here is our experience of 4 different beauty businesses that are in the midst of audits as you are reading this all are losing. An audit was triggered by one of their (I/C staff) they became pregnant and went to their state to claim maternity benefits. Of course she told the state that she was really treated as an employee of the company for several reasons. One, she had no private disability insurance policy in place to fall back on. Secondly she felt like the business implemented some control over her. Thirdly there was no contract between the I/C and the salon owner. The state then went to the business owner as they always do to make an investigational audit to determine if in fact the person filing the claim was really an employee of the company. The truth is those state unemployment agencies, always take the side of an employee. In other words the business owner is always guilty until proven innocent. This client is losing for the same reasons as the other 3 businesses are losing their audits. Even though they were

triggered by different circumstances. # 1. The owner had no contract with their I/C to establish the working relationship from a tax and insurance point of view.

2. There were many control issues that were implemented by the salon and spa owners, which placed them in that employer employee relationship. This resulted in back taxes, penalty and interest for that time period that that individual worked for that company. Just think about it, if several persons worked for your company for more than a year and where "you are supposedly an I/C" would those accumulated fines put you out of business or at the brink of collapse? Most agencies including the IRS will make you convert everyone over to an employee right that second. This would do two things number one reduce any further bleeding of tax issues. By making everyone an instant employee of your company meaning paying all employees based taxes. By agreeing to this move they (those agencies) normally will reduce your fine. My question to you is, would you have a staff still left if you told everyone you were reducing their pay by 20 % or more?

According to the IRS and most States agree, 99.5 % of the beauty industry do not qualify as having I/C period. This is due mostly to not understanding the true I/C guidelines. Our industry is stuck thinking that paying a staff member 60 % and calling them I/C so we don't have to pay all related payroll taxes as the correct way of doing business. **This is why the other 3 salon and spas are losing their audit.**

A true I/C does not work on a regular schedule, regular location on any regular time period. **This alone is why 99.5 % do not and will not qualify as either having or being an I/C in the beauty industry.** For you who are treated as an I/C **you are not off the hook either.** In most cases the salon/spa owner could then subpoena you the I/C tax records to help offset their share of those penalties, fines and interest. Remember all I/C are responsible for the filling of all related income taxes as well. This means every one loses. The filling of a 1099 tax form on all I/C can be a red flag to be audited as all agency's know the beauty industry service providers do not qualify as an I/C. Remember only 0.5 % may actually qualify. That simply means every salon/spa owner either has employees or if set up

correctly has booth renters. The first of the year is the absolute perfect time to restructure your business legally to be more profitably. Ken Cassidy is considered the beauty Industry for most authority on working option, Employee, booth rental or qualifying as an I/C.

Ken Cassidy is founder and president of Cassidy's Salon Management Consulting Co. for past 16 years. Righter and lectures he has been published in every trade publication national. He is considered the foremost expert on booth rental and employee issues within the beauty industry when it comes to the Legal, Profitability and Management of a business. He can be reached at kassidy122@earthlink.net 562/432-4462 or www.kassidys.com.