

short cut to understanding accounting for hairdressers

Do you have hairdressers as clients? Have you ever considered taking them on? This article provides a summary of the key issues unique to this type of client.

■ **Hairdressers present several sector specific challenges for accountants, not least because the stylists operating within one salon may be subject to tax in very different ways.**

It is common practice to find, under one roof, self-employed stylists, employees, and stylists operating under what is known as 'chair rental'.

By applying the normal tax status rules, it's possible to determine which stylists are employees. But difficulties may arise when trying to distinguish between self-employed hairdressers who are independent principals supplying their services directly to their customers, self-employed hairdressers who are sub-contractors providing their services to the salon owners under contracts for services, and those who are providing their services under a chair rental contract.

chair rental

It is this category which gives rise to most of the problems and it can be difficult to determine whether they are supplying their services to the salon owners or directly to the customers. It will usually be necessary to look at the chair rental agreement. Such agreements usually stipulate that, in return for a fee, the salon owners will provide the stylist with furniture, water, hairdressing products and the use of an area within the salon. It may also include arrangements to ensure consistency within the salon such as the wearing of uniforms.

The fees for the stylist may go into a general till before a settlement is made between the salon and the stylist as to the balance due to the stylist after deduction for the chair rental.

For this scheme to work well the importance of keeping good records cannot be understated.

tribunal case

The determination of the status of stylist who operates under a chair rental agreement is necessary to ensure not only their treatment for income tax purposes but also for VAT.

There have been a number of Tribunal cases on this issue. Kieran Mullin Ltd v C & E Commissioners heard in the Chancery Division [2003] provides a clear exposition of the relevant issues. It was held in that instance that the stylists with chair rental agreements were independent stylists making supplies direct to the customers and that therefore, for VAT purposes, and as such the supplies made by the individual stylists were not to be included in the total of supplies made by the salon for VAT.

The VAT treatment of the payments made by the stylists to the salon proprietors, under the chair rental agreement, may vary depending on the circumstances and the agreement between the stylist and the salon. For example, in some instances, there may be a licence to occupy land and thus an exempt supply. In others, there will be a standard rated supply of services.

Other tax matters that will need to be addressed are:

- **tips:** the tips received by hairdressers are received in respect of services they have provided and are taxable.

Employees should include tips received on the employment pages of their self-assessment return. Self-employed hairdressers should bring into their accounts the tips they receive.

- **specialist clothing:** if an employee must provide their own protective clothing such as uniforms and gloves, and such expenditure is not reimbursed by the employer, the employee is entitled to tax relief for the cost. They can also deduct the cost of repairing, cleaning and replacing such specialist clothing from their taxable income. Tax relief for self-employed hairdressers will be given under the normal self assessment rules.
- **tools:** if an employee is required to buy their own tools which they need to do their work, such as scissors, they are entitled to tax relief for the initial cost and also the costs of maintaining and replacing the tools. Self-employed hairdressers will be entitled to the normal tax reliefs. ■

Gillian Latimer – Technical Adviser, ACCA UK

