

FICA 7.65%

FICA is a U.S. federal payroll tax. It stands for the Federal Insurance Contributions Act and is deducted from each paycheck. Taxes under the **FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)** are composed of social security taxes, and Medicare taxes.

THE CURRENT TAX RATE FOR SOCIAL SECURITY IS



THE CURRENT RATE FOR MEDICARE IS



Employee tip income is treated as **EMPLOYER-PROVIDED WAGES** subject to income tax and employment taxes under the **FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)**.

Employers are responsible for withholding employee income tax and the employee's share of FICA taxes and paying the employer's share of FICA taxes on the reported tips.



HISTORY

Prior to 1966, tips were subject to INDIVIDUAL INCOME TAX but not FICA taxes. In 1965, Congress amended the law to require employees who received cash tips **OF \$20 OR MORE** in a calendar month after 1965 to report the tips to employers, and require employers to treat the reported tips as wages for purposes of withholding income tax and the employee's portion of FICA taxes. Employers, however, **DID NOT** have to pay the employer's portion of FICA taxes on the reported tips.

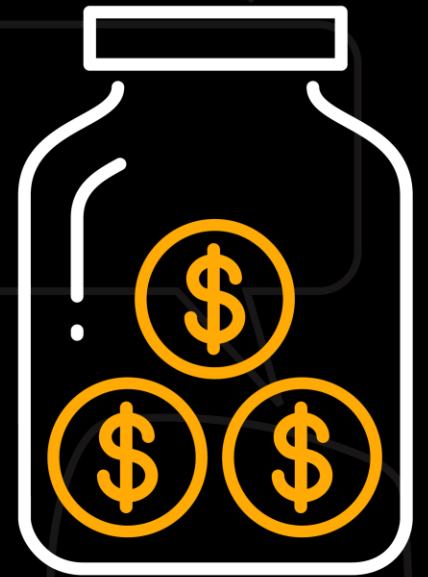
A law change in 1977 **REQUIRED EMPLOYERS TO PAY** the employer share of FICA taxes on the employee's tips, but **ONLY** on amounts up to the federal minimum wage.

This ceiling was removed in 1987, and consequently employers were required to pay the employer's portion of FICA taxes on **ALL TIP WAGES**.



45B FICA TAX TIP CREDIT

The **FICA TIP TAX CREDIT** allows employers to take a credit on a portion of the employer FICA taxes paid on the employee tips. Employer FICA taxes are comprised of **SOCIAL SECURITY** and **MEDICARE TAX**, which is currently taxed at 7.65% of the gross wages. Congress enacted the general business credit in 1993 at the urging of the National Restaurant Association.



IRS FORM 8846 CREDIT FOR EMPLOYER SOCIAL SECURITY AND MEDICARE TAXES PAID ON CERTAIN EMPLOYEE TIPS

Certain food and beverage employers use **FORM 8846** to claim a credit for social security and Medicare taxes paid or incurred by the employer on certain employees' tips. The credit is part of the general business credit.

Form 8846		Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips	OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		▶ Attach to your tax return. ▶ Go to www.irs.gov/Form8846 for the latest information.	2021 Attachment Sequence No. 846
Name(s) shown on return			Identifying number
Note: Claim this credit only for employer social security and Medicare taxes paid by a food or beverage employer where tipping is customary for providing food or beverages. See the instructions for line 1.			
1	Tips received by employees for services on which you paid or incurred employer social security and Medicare taxes during the tax year (see instructions)	1	
2	Tips not subject to the credit provisions (see instructions)	2	
3	Creditable tips. Subtract line 2 from line 1	3	
4	Multiply line 3 by 7.65% (0.0765). If you had any tipped employees whose wages (including tips) exceeded \$142,800, see instructions and check here ▶ <input type="checkbox"/>	4	
5	Credit for employer social security and Medicare taxes paid on certain employee tips from partnerships and S corporations	5	
6	Add lines 4 and 5. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 4f	6	
For Paperwork Reduction Act Notice, see instructions.		Cat. No. 161482	Form 8846 (2021)

Employers may claim this credit if they have employees who received tips from customers for **PROVIDING, DELIVERING, OR SERVING FOOD OR BEVERAGES** for consumption if tipping of employees for delivering or serving food or beverages is customary. Generally, the credit equals the amount of employer **SOCIAL SECURITY** and **MEDICARE** taxes paid or incurred by the employer on tips received by the employee. However, employers **CANNOT** claim the credit for taxes on any tips that are used to meet the federal minimum wage rate.



LEGISLATION AND SPONSORS

H.R.45 | S.45 SMALL BUSINESS TAX FAIRNESS AND COMPLIANCE SIMPLIFICATION ACT

Congressman Darin LaHood and Congresswoman Suzan DelBene
Senator Ben Cardin and Senator Tim Scott

SMALL BUSINESS TAX FAIRNESS AND COMPLIANCE SIMPLIFICATION

This bill expands the tax credit for a portion of the **EMPLOYER-PAID SOCIAL SECURITY TAXES** for employee cash tips to include beauty service establishments. (Under current law, the credit is **LIMITED** to tips received for providing, serving, or delivering food or beverages.)

The credit applies to tips received in connection with **PROVIDING BEAUTY SERVICES** to a customer or client if tipping employees who provide the service is customary. Beauty services include barbering and hair care, nail care, esthetics, and body and spa treatments.

NEWS

The Hill
POLITICOPRO Morning Tax
Bloomberg Tax
Washington Examiner
Accounting Today
Global Cosmetic Industry
NailPro
Salon Today
American Salon
Beauty Launchpad
HAPPI
Behind The Chair
Beauty Industry Report

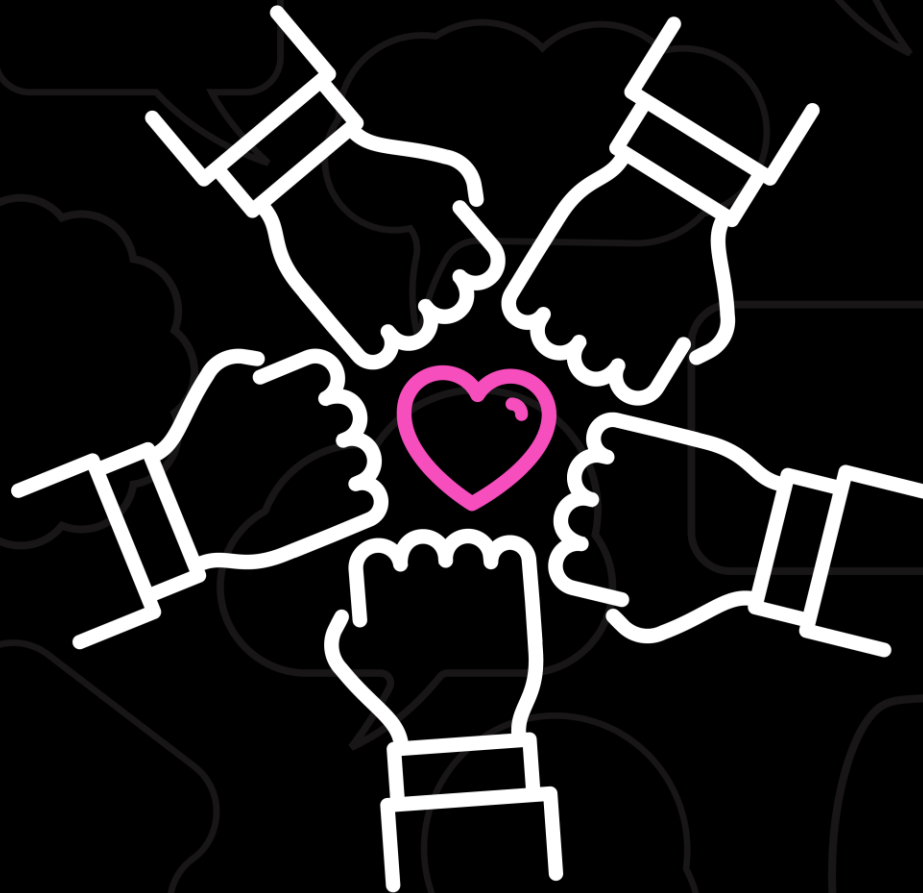
ALLIANCE FOR TAX EQUITY

International Franchise Association
National Association of Women Business Owners
National Association of Barber Boards of America
International Spa Association
National Interstate Council of State Boards
Personal Care Products Council
Professional Beauty Association
Professional Beauty Employment Coalition
The Esthetics Council
Associated Skin Care Professionals
Associated Hair Professionals
Associated Nail Professionals
Intercoiffure America Canada
International Salon Spa Business Network
Cosmetologists Chicago
Associated Bodywork and Massage Professionals



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CAPITOL TAX PARTNERS

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relations and tax policy firms

Pat Heck
Annabelle Canning
Jake Triolo
Caroline Harris



HAVE YOU DONE THE MATH?

HOW MUCH CAN YOUR BUSINESS SAVE IF YOU HAD ACCESS TO THE 45B FICA TAX TIP CREDIT?

H.R. 45 | S. 45, the Small Business Tax Fairness Act, is pending before both the House and Senate. This legislation will allow salons access to the same tax credit as restaurants for the employer portion of FICA taxes paid on tips.

THE RESTAURANTS HAVE THE
CREDIT, AND **SO SHOULD YOU!**

ANNUAL REPORTED TIPS	ANNUAL TAX CREDIT
\$25,000	\$1,913
\$50,000	\$3,825
\$75,000	\$5,738
\$100,000	\$7,650
\$125,000	\$9,563
\$150,000	\$11,475
\$175,000	\$13,388
\$200,000	\$15,300
\$225,000	\$17,213
\$250,000	\$19,125
\$275,000	\$21,038
\$300,000	\$22,950
\$325,000	\$24,863
\$350,000	\$26,775
\$375,000	\$28,688
\$400,000	\$30,600
\$425,000	\$32,513
\$450,000	\$34,425
\$475,000	\$36,338
\$500,000	\$38,250

Support the Professional Beauty Association's efforts to pass legislation for tax fairness, **we want to keep your money in your business.**

CONTACT KATI@PROBEAUTY.ORG | MYRA@PROBEAUTY.ORG

PBA ISSUE ADVOCACY FUND

The PBA Issue Advocacy Fund (IAF) is generously supported by contributions from those who work within and are associated with the professional beauty industry. Your donation to the Fund helps ensure we retain the leadership and financial resources necessary to influence and participate in the public policy process at both the state and federal levels. With your financial support, we are able to meaningfully engage in strategies that benefit the professional beauty industry and advocate for positive change.

The PBA Issue Advocacy Fund was created to help fund advocacy and issue campaigns on legislative and regulatory matters important to the industry. The Fund supports the interests of its members, including manufacturers, distributors, salon spa owners, and licensed beauty professionals. We need your support to make sure that we have the financial ability to be proactive on issues that can affect our industry.

The PBA Issue Advocacy Fund accepts both personal and corporate contributions. The Professional Beauty Association (PBA) collects and administers these funds. Contributions to the Fund are not tax-deductible as charitable contributions or as business expenses because the contributions will be used for lobbying and other similar expenditures.



DONATE TODAY!

CONTACT MYRA REDDY FOR MORE INFORMATION
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*Paid for by the PBA Issue Advocacy Fund, 7755 E Gray Rd, Scottsdale, AZ 85260.
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