

## South Dakota

### Department of Revenue

445 East Capitol Avenue  
Pierre, South Dakota 57501

# Beauty Salons and Barber Shops

June 2016

**This Tax Facts is designed to explain how sales and use tax applies to beauty salons, barber shops and similar services. If this Tax Facts does not answer your specific question, please call the department's toll-free Helpline at 1-800-829-9188 between 8:00 AM –5:00 PM CST, Monday through Friday.**

**Information found in this document rescinds and replaces all previous written information on this subject. All readers and users of this publication are responsible for keeping informed about changes in tax laws and regulations by reading the Department of Revenue newsletters, press releases, Tax Facts, and other documents published by the department.**

Services provided by barbers, cosmetologists, nail technicians, and estheticians are subject to the 4.5% state plus applicable municipal sales tax. Other services that may be performed at salons are also subject to sales tax. Examples of these services include: permanent makeup, tattooing, tanning services (spray tans or tanning beds), ear candling, massage therapy, reflexology, aromatherapy, piercing and branding.

In addition to sales tax on services, service providers are the consumer of products they use in providing their service and may have a use tax liability. This brochure explains when products are subject to tax at the time of purchase and what products may be purchased for resale.

Please refer to the following sections for detailed information on these topics.

- Sales Tax License Requirements for Owners and Independent Contractors or Booth Renters
- Products and Equipment Used by the Service Provider
- Products Sold to Customers
- Exemption Certificates
- Consignment Sales
- Gift Certificates
- Food and Drink
- Calculating and Reporting Sales Tax
- Record Keeping Requirements

## Sales Tax License Requirements

A salon or barber shop may have employees or independent contractors, such as booth renters.

**Employees** - The salon or barber shop owner is required to have a sales tax license and is responsible for reporting all receipts of the business. The owner may pay the employees wages or commissions. The employee does not owe sales tax on the wages or commissions received. The owner cannot deduct the wages or commissions from the gross receipts which are subject to sales tax.

**Independent contractors** - "Booth Renters" - Each person that rents a booth from a salon or barber shop owner is required to have a sales tax license and is responsible for remitting sales tax on their receipts. Booth rent is not subject to sales or use tax. The booth renter cannot deduct the payment for booth rent from their gross receipts which are subject to sales tax.

Other services as listed above that may be provided at a salon are also subject to sales tax. If the salon owner collects all receipts, they are responsible for remitting sales tax on the receipts. Any commission or wages paid to the employees are not subject to sales tax. If the salon just provides space to a service provider, the service provider is responsible for their own receipts, and must be licensed with the Department of Revenue to remit any sales or use tax due.

### **Other contact information:**

- All salons, cosmetologists, nail technicians, and estheticians should contact the Cosmetology Board for licensing requirements. <http://dlr.sd.gov/bdcomm/cosmet/>
- All massage therapists should contact the South Dakota Board of Massage Therapists for license requirements. <https://doh.sd.gov/boards/massage/>
- All barbers should contact the Board of Barbers. <http://www.dlr.sd.gov/bdcomm/barber/default.aspx>
- In addition, you may want to contact the IRS or a CPA for information regarding income taxes.

## Products and Equipment used by Service Provider

Service providers are the consumer of all products and supplies they use in performing their service. The service provider is responsible for remitting the use tax on all supplies taken from inventory that were purchased without tax when those supplies are used in performing their service or for personal use. Sales and use tax is due on all equipment used by a salon or service provider.

If the supplier does not charge sales tax, the service provider is responsible for remitting 4.5% state plus applicable municipal use tax on their purchase price. The purchase price is the amount paid for the product including delivery or handling charges.

Depending on the salon, the salon owner may purchase all of the products for use or for sale in the salon, they may sell products to the booth renter, or the booth renter may be responsible for purchasing their own products and supplies.

### Examples:

1. Salon or barber shop purchases all products. The salon or barber shop is responsible for remitting use tax on all supplies used by the employees or booth renters if sales tax was not collected by the supplier, and is responsible for sales tax on all sales to customers.
2. Salon purchases products but sells to the booth renters. The salon may purchase the products for resale. The salon will owe sales tax on all products sold to booth renters to be used by the booth renter. The salon will owe use tax on all products they or their employees use and will owe sales tax on all products they sell to customers.
3. Booth renters purchase their own products. The booth renter will owe use tax on all products they use in providing their service if sales tax was not collected by the supplier and will owe sales tax on all products they sell to customers.

Examples of products or supplies subject to sales or use tax when used on customers are:

antiseptic	masks
bleach	mousse
body wraps	nail files
cleanser	nail glue
color	nail polish
color remover	nail tips
conditioners	oils
cosmetics	perms
cuticle cream/oil	polish remover
cuticle pushers	pomade
cuticle remover	reconditioners
detanglers	shampoo
gel	straighteners
hair extensions	talcum powder
hair gloss	tan accelerator lotion
hair pins	tan intensifying lotion
hair thickening lotion	toners
hairspray	volumizers
lash extensions	wax
makeup	wax remover

Delivery and handling charges, including postage, are included in the cost of the product which is subject to sales or use tax.

Suppliers are responsible for collecting sales tax unless they are provided a valid exemption certificate. When purchasing items for use in the salon and items for resale, the salon or booth renter should indicate to the supplier which products should be taxed. If products are being used by the salon or booth renter are purchased without tax, use tax is due.

### Use Tax

Purchases of all equipment and supplies used at a salon are subject to sales tax. When the supplier has not collected sales tax, the purchaser is responsible for remitting use tax in the period in which the items are purchased or received by the business.

Examples of equipment & supplies subject to sales tax include:

capes	manicure equipment and supplies
cleaning supplies	massage tables
combs/ brushes	magazines
computers and computer software	pedicure equipment and supplies
curling irons	razors
gloves	salon chairs
hair dryers	scissors
laser hair removal equipment	tanning beds
	towels

### Products sold to Customers

Products sold to customers for their use are subject to the 4.5% state plus applicable municipal sales tax. Products sold to customers can be purchased for resale. Examples are shampoos, conditioners, dryers, combs, brushes, curling irons, etc. that the customer takes with them. Use tax is due on products removed from inventory for personal use or use in the business.

The salon or booth renter should provide the supplier with an exemption certificate when purchasing items for resale.

When the salon owner is responsible for all items sold to customers they are liable for the sales tax on the selling price. If the salon pays a commission to the employees for products they sell the employees will not owe sales tax on the commission they receive.

If the booth renter is responsible for any products they sell, the booth renter will report those sales on their sales tax return. If the booth renter purchases items from the salon owner or other booth renters to sell to customers, they should provide an exemption certificate to the person they purchased from. The booth renter then collects and remits sales tax on the sale to the customer.

### Exemption Certificate

An exemption certificate must be completed by the purchaser when they are buying products for resale. The purchaser must furnish a completed certificate to the seller. Without an exemption certificate the seller is responsible for collecting sales tax. The purchaser is responsible for assuring that the products and services purchased are being purchased for resale. When a purchase includes products for resale and products to be used by the purchaser, the purchaser should tell the seller which products will be used by them so the appropriate sales tax can be applied at the time of purchase. If sales tax is not charged on the products to be used by the purchaser, the purchaser must remit use tax on the amount paid for those products, including delivery and handling charges.

**Misuse of exemption certificates** - Any purchaser who knowingly and intentionally lists items for resale that he or she knows will not be resold, or provides an invalid exemption certificate with the intent to evade payment of the tax, must pay the use tax on these

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items and may be guilty of a Class I misdemeanor and fined up to 50% of the tax owed. If a business legitimately purchases an item for resale, but later uses that item, the purchaser is responsible for reporting and paying use tax on that item.

An exemption certificate may be printed from the Department's website at <http://dor.sd.gov> under Forms. A Tax Facts on the use of exemption certificates may also be found at that website under Publications or may be obtained by calling 1-800-829-9188.

### Tips

Voluntary tips are not subject to sales or use tax. Mandatory tips are included in the gross receipts and subject to sales tax.

### Consignments

Retailers that sell products on consignment are responsible for collecting and remitting sales tax on the sale. The retailer may issue the consignor an exemption certificate.

Examples of products that may be sold on consignment are purses and hair accessories.

### Gift Certificates

The sale of a gift certificate is not subject to sales tax at the time of purchase. When the gift certificate is redeemed for services or goods it is subject to sales tax. The sale of a gift certificate is included in gross receipts, and then taken as a deduction under nontaxable sales. When the certificate is redeemed for products or services, the sale amount of the products or services is included in line 1 of the sales tax return.

### Food and Drinks

The sale of candy, pop, or chips is subject to 4.5% state plus applicable municipal sales tax.

The sale of prepared food is subject to the 4.5% state, applicable municipal sales tax, and municipal gross receipts tax. The prepared food rate applies if the business sells food or drinks they prepare such as sandwiches, meals, and drinks that are not a part of a spa package.

Food or drinks provided to customers at no charge or as part of a spa package are subject to the state plus applicable municipal sales tax when purchased. If sales tax is not paid when purchased, use tax is due on the cost of the food and drinks. The total charge for the spa package is also subject to sales tax.

Salons and booth renters cannot sell or serve wine or champagne or other alcoholic beverages, including complimentary alcoholic drinks, without the appropriate alcohol license.

## Calculating and Reporting Sales Tax

**Do not include sales tax in the gross receipts** reported on line 1 of the sales tax return. If a fee includes the sales tax, be sure to back out the sales tax before reporting the gross receipts. Tax may only be backed out of the fee if the pricing information states that tax is included in the price.

**Use taxable items** are reported on line 2 of the sales tax return. Use tax is due on the cost of a product including delivery charges.

**Non-Taxable sales** are included on line 1, gross receipts, and then are deducted on Line 3, Non-Taxable Sales. This includes receipts for products sold for resale (when a valid exemption certificate was received) and receipts for booth rentals or commissions. Only commissions received may be deducted. Do not deduct commissions paid to others.

### Record-Keeping Requirements

Any business subject to sales, use or contractor's excise tax in this state must keep all business records for at least three years. Examples of business records include:

#### **Gross Receipts:**

- Sales and billing invoices
- General ledger
- Cash register tapes - Journal tapes, detail tapes, Z tapes, guest checks
- Bank deposit slips and statements
- Sales and/or cash receipts journal
- Contracts
- Pricing information
- Appointment books

**Deductions:** All deductions to gross receipts allowed by law and claimed in filing returns must be supported by the following types of documents:

- Exemption certificates
- Proof of exemption (exemption certificate or proof of government funds)
- Bills of lading or other proof of delivery
- Credit memorandums
- Bad debts as claimed on federal income tax returns

**Use Tax:** Tangible personal property or services on which sales tax has not been paid are subject to use tax. Services and use taxable items which are stored, used or otherwise consumed should be identified by:

- Purchase invoices
- Cash disbursement journal or check register
- Fixed assets schedule
- Inventory withdrawal records
- Depreciation schedules

The above records should be preserved for a period of three years and must include the normal books of account ordinarily maintained by the average prudent businessperson. All tax returns, as well as the schedules or working papers issued in connection with the preparation of tax returns, should also be preserved. In addition to the above records, the business should keep copies of supporting information, worksheets, schedules, etc. showing how the sales and use tax amounts were determined.

Anyone who fails to keep the records and books required, or refuses to exhibit these records to the Department of Revenue for the purpose of examination, could be found guilty of a Class 1 misdemeanor.

### Talk to Us!

If you have a tax problem or question, call the South Dakota Department of Revenue toll-free at **1-800-829-9188**. Visit us on the web at <http://dor.sd.gov>, email us at [bustax@state.sd.us](mailto:bustax@state.sd.us) or write us:

SD Department of Revenue  
445 East Capitol Ave.  
Pierre, SD 57501

#### **Aberdeen**

14 South Main, Suite 1-C  
Aberdeen, SD 57401

#### **Sioux Falls**

300 S Sycamore, Suite 102  
Sioux Falls, SD 57110

#### **Mitchell**

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#### **Watertown**

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Watertown, SD 57201

#### **Rapid City**

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#### **Yankton**

1900 Summit Street  
Yankton, SD 57078

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