

Form 1099-K for Salon Employees

Many salon employees could receive a new tax form for the 2022 or 2023 year called a 1099-K. Third party apps like Venmo, PayPal, and CashApp will be issuing a Form 1099-K to people that receive money through those platforms. A salon employee who receives tips through one of those apps could get a 1099-K in 2022 or 2023 for the very first time.

For 2022 the threshold for receiving a 1099-K is \$20,000, but for 2023 that threshold is only \$600 so we will likely see an explosion of 1099-K in 2023 if you receive tips through one of those apps.

What do you do if you get a 1099-K? An employee would be required to report their tips to the salon owner so the tips can be processed through the payroll and added to your W-2. If the employee also had to pick up income from the 1099-K that would be double counting the income. So if you get a 1099-K for tips that were reported to your employer you should report the 1099-K income and then also report a subtraction of the same amount so you are not double taxed. This is how it could look on your other income line of your individual tax return if you got a 1099-K from Venmo:

Venmo 1099-K income \$21,482

Nominee income reported on W-2 from Salon EIN 12-1234567 -\$21,482

So how do you avoid getting a 1099-K in the first place? If you receive tips through a third party app be sure that the account you have setup is an individual account and not labeled as a business account. Some apps have ways to designate individual payments as business transactions or personal transactions, choose the personal transactions. Other apps will call it friends and family designations, that type of label will help the third party apps know that this payment should not be subject to the 1099-K reporting. Being intentional about how you setup the apps can save you the hassle of getting a 1099-K in the first place.

Remember that all tips are taxable, and all tips whether cash, apps, or checks need to be reported to your employer. The employer pays the payroll taxes for you, and that tip income will go into your W-2 which will help show your true income from the salon on your W-2 which will help you down the road when trying to apply for a mortgage or a car loan or any other type of financial service based on your income.