

# Hairdressers and Beauty Salons



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### Some Industry specific areas of advice from our experience

VAT: Below or above the limit? Flat Rate Scheme often increases the bottom line – make sure you come out of the scheme before you sell though.

Are workers self-employed under 'chair rental agreements' or employees?

VAT should not be accounted for on tips, and beware of them costing employer's National Insurance if fully passed on via payroll.

There can be annual tax/NI savings to be had by operating the trade from within a limited company, but with the premises being owned personally.

Is ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Wills: are they tax efficient particularly as regards the business?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

## Industry Background

Various trade and industry estimates put the number of hairdressing/beauty salons in the UK at around 39,000. Figures from the Hairdressing and Beauty Industry Authority (HABIA) indicate that there are around 36,000 hairdressers and 3,000 barbers (so called due to their historic role of the provision of "bleeding" services and hence the red swirling signs signifying "blood letting")

According to the Guild of Professional Beauty Therapists there are approximately 14,000 beauty businesses of one kind or another operating in the UK, of which around 5,000 are VAT registered High Street-type salons, with the balance consisting of smaller non -VAT registered salons.

As illustrated by government figures included in UK Business: Activity, Size and Location, very many in the sector are owner managed businesses. Of the 13,800 VAT registered hair and beauty enterprises listed, some 44% achieve an annual turnover below £100,000.

State registration of professional hairdressers is compulsory in many European countries. Various organisations have for some time been campaigning for the introduction of a similar system in Britain, in order to maintain standards within the industry and to curtail the activities of untrained 'cowboys'

The first half of the 2000s saw a generally stable economic climate in the UK, with expenditure on hairdressing and personal grooming increasing by over 50% between 2000 and 2007.

The industry is expected to continue to benefit from the following:

- Further increases in the number of working women
- Continuing fascination with, and imitation of, the appearance of 'celebrities'
- Greater interest in personal appearance among pre-teen children (particularly girls) as a result of the 'kids growing older younger' phenomenon
- Continuing interest in personal appearance shown by men
- Growing demand for anti-ageing treatments



### Some Industry specific areas of advice from our experience (cont'd)

Is a change of accounting date a good idea?

Are controls over and reconciliation of cash sales adequate to guard against theft and rebuff challenges of completeness from HMRC?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven by CO2 emissions. It can now even make sense for a company to provide low emission cars to non-employee family members such as children!



### Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

An individual hairdressing business's financial performance will be affected by a number of factors, some of these are as follows:

- The pricing policy—turnover may be boosted by the introduction of a two (or more) tier tariff whereby senior stylists are charged out at a higher rate than less qualified and experienced staff
- The nature of outlet, type of client targeted and the product mix
- Diversifying or expanding the range of services, for example by offering ear piercing, beauty treatments, or salon products for retail sale
- Giving discounts and special offers
- Losing goods or takings as a result of theft
- Any wastage of hair styling products which occurs
- Using salon products during staff sessions, or when staff provide treatments to fellow employees.
- Introducing free coffee, tea or other refreshments for clients without increasing prices
- Receiving extra income from “rent a chair” arrangement
- Paying commission to stylists; part of the total employment cost will then increase with productivity
- Any factors which affect the number of productive hours achieved



In addition to cuts, shampoo and set, perming, colouring, colour correction, conditioning treatments, extensions, straightening and so on, many salons ensure that their range always includes the latest hair styling fashions above, and might also generate income from the following:

- A special occasion/bridal service
- Manicure/pedicure, artificial nails
- Hairdressing of African-type hair, facials, hair removal and henna tattoos
- Sun-bed treatments and saunas
- Massage and head massage
- Complementary therapies such as aromatherapy
- Ear and body piercing
- Introducing gift tokens so that the client base is broadened
- Retail sale of hair and beauty products

## Key Performance Indicators

Performance within this sector is commonly expressed in one of the following ways:

- Ratio of purchases to takings
- Gross profit rate

The gross profit rate calculation might include both purchases and direct labour costs, or it might take into account purchases only. Additional useful information is the number of customers provided with particular treatments. It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed in order to cover overheads and a reasonable level of profit.

Ask us how your gross profit percentages compare with the norm for your type of activities. Ask about our own award winning “tax tools” software including “business profitability analyst” based on key driver information.



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## Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including hairdressers and beauty salons. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.