



Guide to chair renting or employing staff



Supporting the hair, beauty
and barbering industries



Introduction

CHAIR RENTING OR EMPLOYEES - WHAT'S THE RIGHT CHOICE FOR ME AS A SALON OWNER?

Here are our top tips for employers to help you think through the advantages and disadvantages of going down the 'chair renting' route or employing your own staff.

Chair renting can be a successful business model, both for chair renters themselves and for salon owners. Like any other business decision, you need to go into chair renting with your eyes open, having done your research thoroughly first.

If you're going into it just to save money and hassle with employees, you should think again. While this is an obvious advantage, there are other things to think about. And if you get it wrong, you could do enormous damage to your business as well as landing yourself with hefty legal and tax bills.

If you're thinking of moving an existing employee onto a chair renting agreement, call the NHF legal helpline first. There could be a redundancy situation if you're dismissing an employee before offering them a chair renting contract so you need expert advice.

Here are our top tips to help you work out whether chair renting is the right option for you.

Check out the NHF's other guides on all aspects of running a hair or beauty business at www.nhf.info/nhf-guides.

NHF Guides

- Allergy alert testing
- Apprenticeships
- Becoming a training provider
- Business finance
- Card payment processing
- Careers
- Chair renting
- Client experience
- Complaints
- Data protection and wi-fi
- Employing people
- Franchising
- Health and safety (part of kit)
- Managing performance
- Marketing your salon
- Minimum wages
- Pensions
- Prices, wages and profit
- Recruitment
- Salon fit-out
- Salon software
- Self-employment
- Start-up guide (updated)

Important information

The information contained within this document is for information and guidance purposes only and must not be used as a substitute for seeking legal or professional advice. The information is correct at the time of writing.



1. Do the numbers - how much money will you actually save?

If you switch from having employees to chair renters work out what savings you would make on:

- Employer National Insurance Contributions at 13.8% (2017/2018). Salons do not have to deduct NICs from any employee under the age of 21 or for apprentices aged 25 and under. Also check whether you're eligible for the Employment Allowance which can reduce NICs for employers by up to £3,000.
- Holiday pay
- Sick pay
- Pension contributions (1% employer contributions on banded earnings up to October 2017, 3% to up October 2018 and 5% thereafter). Contact the NHF for information on pensions and the NHF pension scheme

So it's likely after these calculations that you'll save money. BUT read on...

You can't dictate the hours that your chair renter work

2. You won't have the same control over the chair renters as you do over employees

If you want to stay on the right side of the law and the tax man, you can't tell a chair renter what hours they work. So if they don't want to work on Saturdays, or want to leave early or come in late they can, even though it's your name above the salon door.

Neither can you tell chair renters:

- What they charge their clients
- What uniform or clothing to wear
- Which products they use or sell
- Which services to provide
- What marketing materials or special offers they provide
- Which clients they take on or turn away
- How to behave

You can't provide training for chair renters, they have to provide and pay for it themselves. And they can appoint a 'locum' (a substitute) to work the chair in their absence.

3. Chair renters run their own business - inside your salon

Chair renters run their own business, but they're doing it inside your salon, not on their own premises. Remember, they are running their own business, not YOUR business, and their clients are THEIRS, not yours.

As a self-employed person, chair renters must register their business and:

- Have separate business accounts and maintain their own client records
- Be responsible for their own tax
- Be responsible for their own health and safety, except as required by the salon owner in line with current health and safety legislation
- Have their own insurance, including public liability, product liability, losses from fire, theft, accidental damage, storms*
- Display a notice giving their name and address (required by the Companies Act)
- Have their own business stationery eg invoices, letterheads, receipts
- Deal with any client complaints themselves and, if they are sued, deal with any legal action
- Be responsible for the appearance and presentation of their business, including behaviour, hygiene standards and safety
- Potentially, have access to the premises whenever they want (although the NHF contracts stipulate that use of the premises outside normal salon opening hours would have to be agreed by the salon owner in advance)

**the NHF's preferred supplier, Coversure Insurance Services, provides cost-effective insurance packages for chair renters.*

So if you have five chair renters, you will have five individual businesses competing with each other - and with you - on your own premises.

As they're already running their own business (in your salon), the risk of them deciding to become a salon or barber shop owner themselves and setting up a new business of their own is probably higher than it would be for any of your employees.

A good chair renting contract will cover points like enticing clients away from you while the contract is in place and for a period, usually six months, after it has expired.

As they aren't employees, it can be harder to impose and enforce restrictive covenants which would stop them from setting up business on your doorstep or poaching your clients.



4. Have a watertight contract

If you don't have a contract between you as the salon owner, and your chair renters, you leave yourself wide open to disagreements and expensive legal action. Worse, HMRC may decide that your chair renters are really employees, in which case you will have to pay backdated employer tax penalties as well as risking claims for unpaid holiday pay, unfair dismissal, maternity benefits or discrimination.

So protect yourself by getting proper contracts in place, drawn up by lawyers, like the ones provided by the NHF which are free as part of your NHF membership package. Never try to write a contract yourself to save money - any lawyer will tear it to shreds if you have to rely on it when there is a disagreement.

You must be clear about how chair renting is going to work in your salon. If you're the salon owner you need to have an agreement which sets out the services which are or are not included, for example:

- Telephone, heating, lighting, water and space for clients
- Reception, booking appointments, taking payment from clients
- Use of salon staff eg receptionists or apprentices and what can they use them for
- Use of furniture, fittings and equipment
- Laundry
- Refreshments
- Stock
- Marketing and promotion of salon services
- Cleaning floors and equipment
- Access to the premises and security
- Rental for the chair renting space

- Any charges for the use of services, cleaning, maintenance of communal areas eg reception, and how those charges are calculated

You also need the contract to make it clear that:

- If you're VAT registered, VAT is charged on the rental and any other charges paid by the chair renter to you, the salon owner. A 2012 HMRC ruling makes it clear that VAT is payable, so don't try to argue this point with your accountant or the taxman! But, VAT on rental income does not apply for beauty therapists, nail technicians or other beauty services, providing that they have a clearly defined area from which they operate their business (such as a floor, room or whole salon) and no other services are provided with it, unless they are small scale and incidental to the supply of land eg cleaning or reception services. This is also providing you have not opted to tax.

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5. You must be able to end the contract

The contract must also include how long the chair renting agreement is to last, how the agreement can be ended by either party, what happens if things go wrong, and notice periods.

Remember that chair renters have rights, even if they are not employees, so you can't just let them go if chair renting isn't working in your salon. It's vital that you have a contract that clearly shows how it can be ended by you or your chair renter and you will need to act exactly as it's defined by that contract if you want to terminate the agreement.

You could also consider having a trial period of three months with a review at that point to check that things are working well for you and your chair renter. Remember though that this may make working with you less attractive to chair renters if they think there is a possibility that your commitment is only short term.

All money received from clients is the property of the chair renter, even if it is collected centrally. If money is collected centrally it must be handed over to the chair renter or paid into the chair renter's bank account. The salon owner is accountable to the chair renter for that money.

6. Mixed teams may be a mixed blessing


What if you have a mixed team where you've got employees as well as chair renters?

How are your employees going to feel about the different ways they're treated compared to the chair renters - and the other way round?

How the NHF can help

- Support from the NHF team
- Commercial advice eg calculating chair rental charges
- Free chair renting and treatment room contracts
- Salon insurance and chair renting insurance with Coversure Insurance Services with a 20% discount for NHF members



A woman with long brown hair, wearing a light blue button-down shirt, is looking down at a tablet device. Her hands are visible, with her fingers touching the screen. The background is a solid purple color.

7. You can't use the same incentives for your chair renters as your employees

If you have employees, getting your pricing structure right is vital. You'll want a structure which rewards good performance, for example keeping new clients, repeat clients, retail sales, request rates and so on.

Chair renters set their own prices which will almost certainly not fit within the structure you would operate with employees. So you have no way of offering incentives to them, other than their own desire to increase their takings.

8. Think about marketing and your brand

As a salon owner, you need to think about how you'll grow your business and build your brand when you have chair renters running their own business in your salon. If you rent chairs you are no longer in control of your brand.

What will your marketing strategy look like when you're promoting not only your own business, but the chair renting businesses too?



9. Maintaining your salon's standards will be difficult if you can't invest in training

Most good employers invest in training and education to ensure that their team all work to the same high standard and continue to learn and develop their skills so they can offer a better service to clients.

As they are not employees, you cannot force training on chair renters. They have to decide whether or not they want to do training – they may not want to lose the time and income they could have earned by taking a day out of their business. They must also pay for any training themselves.

Don't forget that a chair renter can appoint a 'locum' (substitute) to work the chair in their place. Depending on your contract you may or may not have the right to vet the locum so you may even have less control over these individuals than you would over your 'original' chair renter.

You may have high standards and you probably invest time and money in marketing your business but your business

is vulnerable to damage which you can't control.

If you take on any apprentices or trainees in the salon, you also need to think about who is going to train them. Chair renters are running their own business, so why would they give up their time to train or supervise your employees?

Don't forget that a chair renter can appoint a 'locum' (substitute) to work the chair in their place.

How the NHF can help

- Support from the NHF team
- Commercial advice eg calculating chair rental charges
- Free chair renting and treatment room contracts



10. Controlling the client experience is much more difficult if you have chair renters

The name on the salon or barber shop is yours. If you have a team of chair renters who are not your employees it's your reputation which is damaged if they provide poor service or let clients down.

Clients won't understand that you are not responsible for the service they receive from chair renters in your salon – and what would it do for your reputation if they did understand that?

So think about the cost of the damage that could be done to your reputation and your business by chair renters who are outside your control.

You can limit the potential damage by carefully selecting your chair renters, including doing trade tests and interviews.

11. How will you build up your business if you aren't supported by a team?

A team of employees who are committed to you and the success of your business is a vital tool for growing your business.

What happens to team spirit if your business is actually made up of independent, competing businesses?

What incentives are there for people within your salon to work towards the same goals?

Why should chair renters work together?

And it may be even harder to get a mixed team of employees and chair renters to work together.

And who will support you and look after your business when you're not there in the salon?

12. Find the right business model for charging your chair renters

If you're going to do chair renting you can:

1. Charge a fixed weekly or monthly rent (licence fee)
2. Charge a percentage of the chair renter's takings to cover services provided (service charge)
3. Or a mix of both 1 and 2

OPTION 1

If you choose option 1 it makes no difference how busy the chair renter is, you will always get the same amount of income. If your chair renters are very successful, you may feel that you're losing out as you don't get a share of their takings. This option gives you a steady income stream but it won't make you rich!

OPTION 2

If you choose option 2, you could lose out if they don't earn as much as you hope, or if they're off sick or take long holidays.

OPTION 3

Using option 3 which combines 1 and 2, you get a lower fixed sum in rent but also a share of the chair renter's earnings. As their takings contribute to the salon's turnover, it also encourages chair renters to work longer hours as they get to keep a higher proportion of their turnover.

If you're taking a share of earnings you need to know exactly how much money is being taken from clients by the chair renter, so you may want all payments to be taken centrally through your till. Make sure that any cash payments go through the till too.

The NHF contracts work on option 3.



13. Be really clear about what you will be charging your chair renters and how it's calculated

To work out the licence fee, you need to know what you pay in salon rent and rates. Then divide that figure by the number of chair renters and employees you have so you can work out how much the space a chair renter occupies is worth. Then add on the profit you want to make (eg 33%) to arrive at the monthly rent you'll charge your chair renters. Don't forget that if you're VAT registered, you also need to add on VAT.

Check that you're fully using the space in your salon. Could you comfortably fit three chair renters in the space available rather than two? This would also reduce the licence fee per chair renter because it's shared between more of them, while still covering your costs and generating a profit for you.

To work out the service charge, go through your annual profit and loss accounts and work out which costs would be relevant for your chair renters e.g. lighting, heat, phone, printing, magazines, cleaning and so on. You may charge a proportion of the wages of people such as receptionists or apprentices to the chair renter if your agreement allows them to provide chair renters with services. But figures such as bank charges or accountancy fees which are specific to your business, not your chair renters, should be ignored.

You don't include stock as the chair renter will either purchase stock from you or from a wholesaler. As they are running their own business, chair renters can buy stock from wherever they want (a condition of a chair renting contract), although it's probably more convenient to buy from you. This works in your favour as it will also encourage them to use stock carefully

because they will be fully aware of the cost of the products they use. You should charge them cost plus a profit, but less than you would charge a client.

Once you know how much the relevant annual costs are, work out what percentage the relevant annual costs are of the salon's total turnover.

To make a profit, the percentage that you will charge on each chair renter's monthly takings needs to be higher than the relevant annual costs. Typically, this will be a figure of somewhere around 20%.

See Appendix 1 for an example.

You do need to make sure that you aren't charging so little that you don't make any profit, or so much that your business becomes unattractive to chair renters.

Once you know how much the relevant annual costs are, work out what percentage the relevant annual costs are of the salon's total turnover.

How the NHF can help

The NHF helpline gives you free access to the commercial team who can look at your figures with you and check they make sense for your business.

14. A word about VAT

The taxman will look at the model your business operates, as this affects both tax and VAT:

MODEL 1: The salon employs its own staff under employment contracts, supplying services to clients. The NHF provides employment contracts free of charge within the membership package.

MODEL 2: Self-employed hairdressers, barbers or beauty therapists who supply services direct to clients (chair renting or room renting). The salon charges rent to the self-employed individual for the right to use an agreed part of the salon and to cover items such as the use of products. The NHF provides chair renting agreements free of charge within the membership package.

With chair renting Model 2, output VAT is only due on their individual gross takings if their level exceeds the registration threshold (£85,000 in 2017) and this is not treated as salon turnover.

But VAT on rental income does not apply for beauty therapists, nail technicians or other beauty services providing that they have a clearly defined area from which they can operate their business (such as a floor, room or whole salon) and no other services are provided with it, unless they are small scale and incidental to the supply of land eg cleaning or reception services. This is also providing you have not opted to tax.

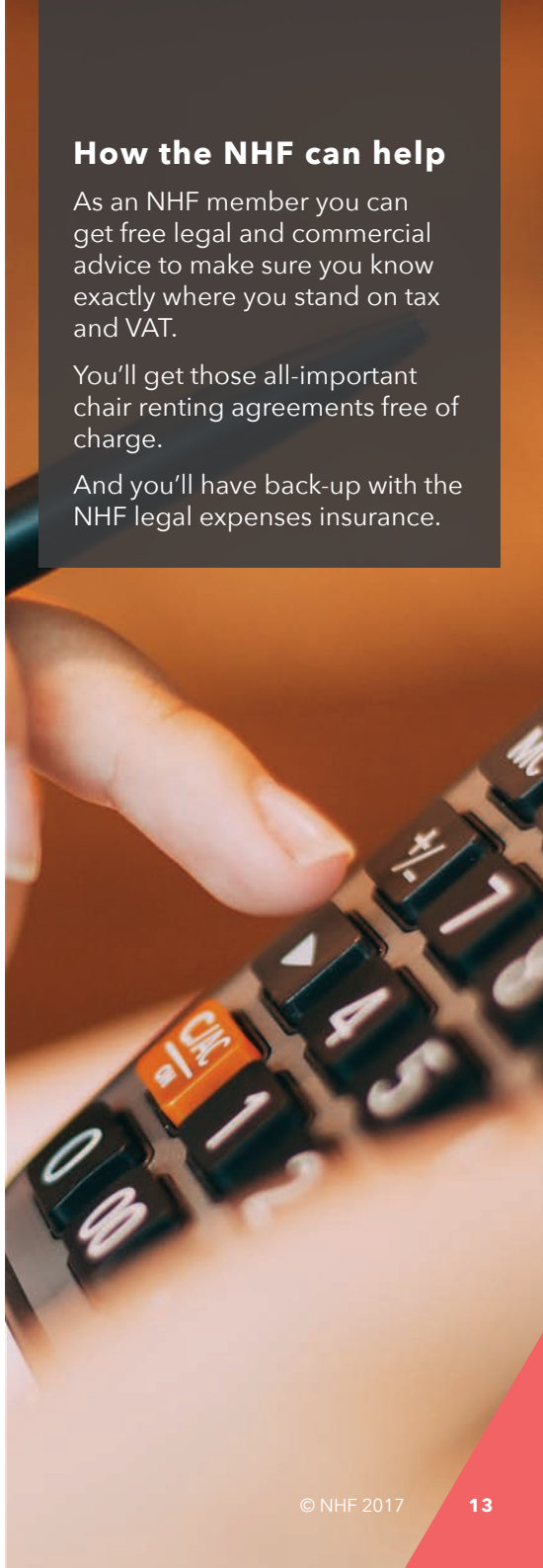
If your salon is not VAT registered, you should include chair rentals in the total value of taxable sales to see if that takes you over the VAT registration limit.

How the NHF can help

As an NHF member you can get free legal and commercial advice to make sure you know exactly where you stand on tax and VAT.

You'll get those all-important chair renting agreements free of charge.

And you'll have back-up with the NHF legal expenses insurance.





Join the NHF today

Get expert advice from the NHF on employment contracts and chair renting agreements, backed up with professional support at the end of a phone from the 24/7 employment law helpline. Plus help on tax, VAT, payroll and commercial issues.

Check out our packed events programme which includes sessions on making your salon more profitable, delivering a great client experience, using your salon software reports to manage your team and pensions.

Employers are required by law to enrol their employees automatically into a suitable pension scheme. The date when this applies to you depends on the size of your business and your PAYE reference. Find out more about pensions and the NHF pension scheme which is tailor-made for salon owners and their employees, with guaranteed acceptance onto the scheme.

Although the NHF pension scheme is open to chair renters, you should take independent financial advice first.

As part of the largest trade association for hairdressing, barbering and beauty salon owners, you also benefit from the campaigning work we do on the National Minimum Wage, business rates, apprenticeship standards and funding, pensions and other issues which affect you and your business.

How the NHF can help

Take a look at the **NHF member benefits** and join us today!

Quote **CRG** to get **£25 off** your first year's NHF members.

Visit www.nhf.info/join or call us on **01234 831965**.

Appendix 1 - example

WORKING OUT THE FIXED LICENCE FEE

Rent and rates per year £16,000

Four chair renters:

Cost of space per chair renter per year
(£16,000 divided by four chair renters) £4,000

Cost of space per chair renter per month
(£4,000 divided by 12 months) £333

Your profit @ 33% £110
(add on 33% to the monthly cost of space)

TOTAL COST PER CHAIR RENTER £443

Working out the service charge

	Accounts (£)	Relevant Figures (£)
Turnover	79,512	79,512
Stock	13,629	0
	65,883	79,512
Rent & rates	16,000	0
Junior's wages	5,233	5,233
Wages of employed stylist	13,000	0
Repairs and maintenance	1,328	1,328
Light and heat	944	944
Telephone rental	143	143
Printing, post and stationery	236	236
Advertising	311	311
Depreciation	1,000	1,000
Magazines	283	283
Cleaning and laundry	1,137	1,137
Insurance	420	420
Bank charges and interest	1,862	0
Accountancy	915	0
Staff and client refreshments	413	413
	43,243	11,466

£11,466 (total relevant costs) as a percentage of £79,512 (salon turnover) is 14%

Add on one third to include your profit (33%) to arrive at a service charge of 19%



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