



Second Quarter 2023

The IRS May Consider You a Small Business

Taxpayers are required by law to accurately report ALL income in the form of money, property, or services, whether or not they receive a Form 1099-K or other information return. But (no surprise), tax compliance is higher when amounts are subject to reporting, such as Form 1099-K.

The American Rescue Plan of 2021 set out to increase compliance and tax revenue by changing the 1099-K reporting standard for third-party settlement organizations (TPSOs) from \$20,000 or more than 200 transactions per year to \$600 in transactions. TPSOs include PayPal, Venmo, Cash App, Square, Amazon, payment card networks (credit/debit cards, online wallets, gift cards) and others. If you receive \$600 or more through a TPSO, the firm is required to report it to the IRS and send you a 1099-K form. The \$600 requirement is not supposed to apply to personal transactions such as sharing the cost of a purchase, a car ride or meal, birthday or holiday gifts, or paying a family member or other for a household bill.

IRS Form 1099-K reporting was supposed to become effective with your 2022 tax filings. Due to the complexity of compliance, the IRS delayed the start date for reporting third-party settlement transactions to those made in 2023 and on.

What does this mean for you if you use a TPSO?

If you actively use settlement services for total transactions in excess of \$600 a year, congratulations, you may be a small business to the IRS. Every TPSO 1099-K form will need to be accounted for on your 2023 tax return. You **MUST** keep good records of all transactions, including the costs associated with the goods and/or services you sell even if it is second-hand clothing. Your 1099-K will show only the total transaction amount for the year. You will need to provide on your tax forms the cost of goods or services sold including whether you made a profit or loss. If you are audited, you will need documentation to prove your costs.

If you currently mingle personal transactions and business settlements, label transactions clearly when you make them to avoid having personal transactions reported as revenue. You might want to set up two different accounts to separate income from personal transactions. You still need to keep good records for all TPSO accounts in the event personal transactions are reported as income on your 1099-Ks and you are audited by the IRS.

If you believe the information on a Form 1099-K, is incorrect, the form has been issued in error, or you have a question relating to the form, you will need to first contact the filer, whose name and contact information appears in the upper left corner on the front of the form and request an amended 1099-K. You may also contact the payment settlement entity whose name and phone number are shown in the lower left side of the form.

According to the IRS guidelines, "If you cannot get the form corrected, the error should be reported on Form 1040, Schedule 1, Part I, Additional Income, Line 8z, Other Income, with an offsetting entry in Part II, Adjustments to Income, Line 24z, Other Adjustments."

Yep, this is going to make your tax accountant richer and more frustrated. It will also impose significant reporting costs on the TPSOs, costs that can be expected to be reflected in your fees to

use the TPSO. Time will tell whether the \$600 threshold reporting requirement actually creates more revenue for the federal government once IRS costs to process more complex tax returns and conduct audits are considered.

Keep good records. And be prepared to include more 1099-K forms on your 2023 tax returns.



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