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Nov. 30, 2015

In an effort to narrow the Tax Gap – the estimated difference between the amount of tax that taxpayers owe and the amount that is paid timely and voluntarily – Congress enacted legislation to increase voluntary compliance of businesses through information reporting. The Department of the Treasury estimated that this new law would result in the additional collection of almost $10 billion over 10 years.

The legislation required information returns to be filed for reportable payment card transactions starting in Calendar Year 2012. This is also when the Internal Revenue Service (IRS) committed to a multiyear, multi-treatment stream compliance pilot initiative, which leveraged information from Form 1099-K, Payment Card and Third Party Network Transactions, to reduce the Tax Gap. This audit continues the Treasury Inspector General for Tax Administration (TIGTA) ongoing oversight of the IRS's implementation of payment card reporting requirements.

The IRS recognizes the challenges associated with using Forms 1099-K to identify noncompliance with income reporting. To address these challenges, the IRS implemented pilot initiatives to identify payment card noncompliance. Payment cards include credit cards, debit cards, and store-valued cards. The IRS continues to use the results from the pilot initiatives to refine the criteria used to identify underreporting of payment card income.

However, TIGTA found that payers are not compliant with backup withholding requirements, which direct payers to withhold 28 percent of amounts reported on Forms 1099-K for payees who failed to provide a valid Taxpayer Identification Number (TIN). TIGTA's review of Calendar Year 2013 Forms 1099-K identified 10,216

Forms 1099-K with a missing TIN. These Forms 1099-K reported gross transactions

TIGTA identified that the TIN Matching Program, used by payers to verify a payee TIN, does not alert the payer when a TIN of a deceased individual is used.

In addition, TIGTA identified 84,107 individuals and 443,528 businesses that did not file a tax return for transactions that payers reported on Forms 1099-K totaling more than $164.5 billion.

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division, ensure that a business case analysis is performed when making decisions to grant transitional relief; assess penalties on certain payers who do not comply with reporting requirements; and use Form 1099-K information as part of the IRS's nonfiler program.

The IRS agreed with six of the seven recommendations that TIGTA made, and plans appropriate corrective actions. The IRS did not agree to implement a computer programming change, because it might encounter budgetary constraints and limited resources, but TIGTA believes this change should be a priority.

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