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reporting by third-party network transactions has been payments exceeding \$20,000 and ...

Jan. 07, 2022

☐ VOID☐ CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		FILER'S TIN	OMB No. 1545-2205	<b>Payment Card and Third Party Network Transactions</b>
		PAYEE'S TIN	Form <b>1099-K</b>	
		(Rev. January 2022)		
		1a Gross amount of payment card/third party network transactions	For calendar year 20	<b>Copy 1 For State Tax Department</b>
		\$		
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		1b Card Not Present transactions	2 Merchant category code	
		\$		
Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>		3 Number of payment transactions	4 Federal income tax withheld	
		\$	\$	
PAYEE'S name		5a January	5b February	
		\$	\$	
Street address (including apt. no.)		5c March	5d April	
		\$	\$	
City or town, state or province, country, and ZIP or foreign postal code		5e May	5f June	
		\$	\$	
PSE'S name and telephone number		5g July	5h August	
		\$	\$	
Account number (see instructions)		5i September	5j October	
		\$	\$	
		5k November	5l December	
		\$	\$	
		6 State	7 State identification no.	8 State income tax withheld
				\$
				\$

Form **1099-K** (Rev. 1-2022)[www.irs.gov/Form1099K](http://www.irs.gov/Form1099K)Department of the Treasury - Internal Revenue Service

If you are self-employed, a freelancer, work on a contract basis with no taxes withheld, or are part of the gig economy, you may be used to receiving Form 1099-NEC or a 1099-K (formerly 1099-MISC), from business clients or customers who paid you at least \$600 during the year. If you accept credit/debit cards or use third-party settlement organizations like PayPal, you may receive a form you’ve never seen before beginning in 2023 for 2022 tax return filings, – *Form 1099-K, Payment Card and Third-*

*Party Network Transactions*, and it may get a bit trickier, especially if you're not

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corresponding months to the IRS and to the people who accept the payment cards or payments made by third-party settlement organizations.

## **New Rules**

Form 1099-K is sent to payees who accept credit cards or payments settled through third-party networks. The “de minimis” also known as minimal amounts exception for reporting by third-party network transactions has been payments exceeding \$20,000 and 200 transactions for the year. This threshold has been dramatically reduced from \$20,000 to \$600 in 2022, with no minimum number of transactions.

## **Why the Big Change?**

Payment settlement entities (merchant acquiring entities and third-party settlement organizations) must report payment card and third-party network transactions. This reporting requirement began in early 2012 for payment card and third-party network transactions. The COVID-19 pandemic created an influx of gig economy workers, joining the others before them already misreporting or underreporting their income – either intentionally or unintentionally – since they were not receiving a Form 1099-K. Third party information reporting has been shown to increase voluntary tax compliance and improve collections and assessments within IRS.

## **The Importance of Recordkeeping**

It's more important than ever to be aware of all the deductions available to you and how to properly claim them, because the “gross amount” on the 1099-K is the total unadjusted dollar amount of the payment transactions made to you. This amount is not to be adjusted to account for any fees, refunds, or any other amounts before it's reported on the 1099-K and to the IRS. This means that Form 1099-K shows the value of the transactions processed for you in the past year, as well as any expenses paid on your behalf by your clients, such as processing fees deducted before payment reaches

you, meaning that your 1099-K should include those expenses, reporting an income

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the gross payment card transactions. Generally, you would not include cash-back amounts as part of your gross receipts on your income tax return. It is important that you maintain records of customer cash back activity over the course of your tax year.

If you shared your credit card terminal with another person or business, your Form 1099-K will include payment card transactions belonging to the person or business that shared your terminal, in addition to your own payments. When required, you'll need to file and furnish information returns for those you shared a card terminal with, including the total payment card transaction amount and any other income belonging to them. Where required, you should file and furnish the appropriate information return (e.g., Form 1099-K or 1099-MISC) for each person or business with whom you shared a card terminal. The information return should include the total payment card transaction amount in addition to any other income belonging to the other person or business. You should retain records of payments issued to each person or business sharing your terminal, including but not limited to shared terminal written agreements and cancelled checks.

This is also an excellent example of why you should not mix your personal and business finances together: the 1099Ks will have all of your transactions on them. While should only report the business expenses on your tax return, the IRS won't know any differently, and the possibility of questions – and audits – arises.

### **1099-K versus the 1099-MISC (Now the 1099-NEC for nonemployee compensation)**

Another error to watch out for is duplicate transactions. The IRS has directed that any 1099-NEC or 1099-MISC payments that are reported on a 1099-K should be reported on the latter form only. To avoid double taxation, keep detailed sales records and watch for duplicate payments. Businesses must provide a 1099-NEC for non-

employee compensation of \$600 or more. Payments made with a credit card must be

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If you're a sole proprietor, you'll record the information from Form 1099-Ks as income and deduct fees and other business expenses included in the total on Schedule C. Amounts related to rental activity are reported on Schedule E, and farming on Schedule F. Remember, the gross amount of a reportable payment on Form 1099-K doesn't include adjustments such as credits, discount amounts, fees, refunded amounts, or other amounts. Partnerships and corporations report Form 1099K amounts as part of their gross revenue on their appropriate income tax return.

If your business has more than one source of income, you might need to report Form 1099K amounts on more than one line, return or schedule; for example, if you have both a retail business and rental income and you use the same credit card terminal for both ventures, your 1099-K will include gross credit card receipts for both. You'll need to rely on your own accurate recordkeeping to properly report gross retail receipts on Schedule C, and rental activity amounts on Schedule E.

### **Contacting the Filer or the Payment Settlement Entity Listed on Form 1099-K**

You will need to contact the filer of the Form 1099-K using the information in the upper left corner of the form if you receive a Form 1099-K that doesn't belong to you, if it contains errors or has a Merchant Category Code that doesn't accurately describe your, or in other cases to figure out why you received it or to request a corrected Form 1099-K. If you don't recognize the filer, you can contact the Payment Settlement Entity using the name and number in the lower left corner of the form to determine why you received it or request a corrected Form 1099-K. Be sure to keep all correspondence and relevant documentation regarding errors. Per the IRS, if you can't get your Form 1099-K corrected, you can report your income correctly and attach an explanation to your tax return.

If you use Forms 1120, 1120S or 1065 to report your business income and then receive a Form 1099-K with your individual name and social security number, request a

corrected Form 1099-K with your business's tax identification number and request

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transactions made before or after the transaction because the tax identification number and business name associated with a credit card terminal were not updated.

### **Hobby or Business?**

Online auction sites such as eBay are an example of the importance of this. While eBay sellers will receive Form 1099-Ks, they may or may not have to report and pay tax depending on how they are selling on the site. If it's considered to be a hobby by the IRS, the income must be reported, but expenses can't be taken. If they are running their eBay account more like a business, they should be reporting your sales to the IRS but are allowed to take deductions.

Even something like having a craft business during the holidays can raise questions. If you take credit cards doing a craft show, you will receive a Form 1099-K; in addition, if you also accept payments from a third-party settlement organization, you will receive a 1099-K from that also if the aggregate amount of payments for goods and services exceeds \$600 during the year, whereas previously you would only have received one for the latter.

While the new rules are necessary for IRS oversight as the "gig economy" and freelancing continues to expand, they can and will affect people even if they are receiving them for a relatively small side hustle and not as a primary source of income. Seek the assistance of a tax professional if you are in doubt.

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Candace J. Dixon has been in practice as an accountant since 1996. She has a Bachelor's Degree in Accounting from Saint Leo University in Tampa, Florida, and is a Certified Advanced QuickBooks ProAdvisor. She specializes in taxation and advanced accounting and is well-versed in the Internal Revenue Code and the gig

economy. Her specialties are tax consulting, tax planning, and researching complex

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