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provision in the American Rescue Plan Act (ARPA), providers must begin reporting to the ...

**Ken Berry, JD** • Jan. 08, 2022



If your small business receives payments from Venmo, PayPal or other third-party networks, you could be in for a rude surprise next year. Under a little-publicized provision in the American Rescue Plan Act (ARPA), providers must begin reporting to the IRS business transactions totaling \$600 or more, just like most employers. This could create some unexpected hassles for entrepreneurs who use one or more of these apps to conduct business.

The ARPA change takes effect on January 1, 2022. Third-party networks are gearing

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for federal income tax on that amount regardless of whether you're paid in cash or by check, credit card, app or some other means. On the flip side, you're entitled to claim deductions for your qualified business expenses that can offset the tax that you owe.

ARPA aims to clamp down on business people, particularly those operating in the gig economy like Uber and Lyft drivers and airbnb landlords, who haven't been reporting all of their taxable business income. But rest assured it doesn't affect casual and personal transactions made through one of the third-party networks. For example, if you're being reimbursed by friends for the tab at a restaurant or for tickets to a sporting event or concert, you're in the clear. This won't result in any taxable income.

Nevertheless, the new reporting requirement could lead to some tax complications.

Notably, the third-party network may not be sure if a transaction is personal or for business. If it issues a 1099 to you for a charge in a gray area, it's up to you to prove that this isn't a taxable event if the IRS imposes tax.

What's more, you might, and probably will, receive some duplicate 1099s for the same goods or services. This could occur, for example, if you get a 1099-MISC or 1099-NEC from a customer or client and a 1099-K from the third-party provider. Again, the onus is on you to establish the existence of just one business transaction for the event.

What can you do about it? Not a whole lot for now. Expect Venmo, PayPal and the other third-party networks to start asking for more information to clarify the nature of your transactions. (BTW: PayPal now owns Venmo.) And they will be requesting your vitals—such as an Employer Identification Number (EIN), Individual Tax ID Number (ITIN) or Social Security Number (SSN)—that they will be sharing with the IRS.

One possible solution is to use separate accounts for business and personal

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