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owners understand the tax implications of those recent workforce changes

Nov. 10, 2022

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

Form **1099-K** (Rev. 1-2022)Cat. No. 54118Bwww.irs.gov/Form1099KDepartment of the Treasury - Internal Revenue Service

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By Wendy Walker.

In the last several years, the American workforce has seen a major shift in worker classifications. [Sovos](#) reported a 33% increase in 1099-K forms filed from the tax year 2020 to 2021, and a 17% increase in 1099-NEC tax forms, both signaling a significant increase in gig and contract work. With new tax reporting requirements taking effect in 2023, it is imperative that SMB owners understand the tax implications of those

recent workforce changes, as well as the practices for managing any new tax

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Inflation Reduction Act this year, more than half of which is earmarked for enforcement. Small business owners will need to be vigilant about compliance.

- **Be mindful of gross amounts reported on 1099 forms.** If a small business is using online platforms to source work, they'll need to be mindful of the discrepancy in the gross amounts reported on Forms 1099-K vs what they actually received from the platform company. The amount reflected on their 1099-K likely includes business-related expenses including fees and credits. Small businesses should get a copy of all the transaction details that make up the amounts reported on the 1099 so that they can properly identify and account for deductible business expenses.
- **Don't use business accounts for personal transactions.** Online platform systems cannot distinguish between personal and business transactions – which means the 1099-K they report could include amounts that aren't even business related. And, when amounts reported by third parties on 1099s don't match amounts reported by the small business on their income tax return, it can cause a red flag with the IRS (and states) and even lead to unnecessary penalty notices. While taxes aren't due on those personal transactions, the headache of proving that out isn't worth the risk.
- **Remember the Increased volume of tax reporting forms:** With the IRS lowering the threshold to report earnings and payment transactions for gig workers, freelancers and contractors, businesses must now complete hundreds of thousands more tax forms by January 31, 2023. Be prepared for the delays this is likely to cause and don't expect anything to happen quickly.
- **Missing or incorrect information can be very expensive:** Improper tax documentation collection and validation processes often lead to incorrect information being reported on tax forms, which can lead to incorrect filing

penalties and trigger withholding obligations for organizations, amounting to

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network for 1099-K reporting purposes.

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As a solution principal for Sovos, Wendy Walker uses her market expertise to create and implement product and solution strategies that help customers meet the demands of a constantly changing regulatory environment. Since joining Sovos, Wendy has helped lead the go-to-market strategy focused on growing the Tax & Regulatory Reporting line of business.

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