Tulsa Tax Attorney David Potts - IRS Delays $600 Tax Report Threshold for Form 1099-K

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A Form 1099-K, Payment Card and Third-Party Network Transactions, is an IRS information return used to report certain payment transactions to improve voluntary tax compliance. The purpose of a 1099-K is to ensure a business reports all of its income for tax purposes. It requires credit card companies, such as MasterCard and Visa, and third-party processors, such as PayPal and Amazon, to report the payment transactions they process for a business. Payment transactions subject to be reported on a 1099-K include payments for goods and services.

The American Rescue Plan of 2021 changed the reporting threshold on a 1099-K for third-party settlement organizations, including payment apps and online third-party settlement organizations. The new threshold requires reporting of transactions has decreased for third-party network transactions from $20,000 plus 200 transactions in years prior to tax year 2022 to $600 without regard to the number of transactions from any platform.

On December 23, 2022, the IRS announced that calendar year 2022 will be treated as a transition year for the reduced threshold of $600. For calendar year 2022, third-party settlement organizations who issue 1099-Ks are only required to report transactions where gross payments exceed $20,000 and there are more than 200 transactions.

A 1099-K is not intended to track personal transactions such as sharing the cost of a car ride, birthday or holiday gifts, or paying a family member for a household bill. As such businesses who use a credit or debit card reader or third-party processors should avoid using it for non-business related purposes. Any payment made to a business for non-business purposes will be included with all the other payments made to the business and reported on a 1099-K to the IRS and income tax will be due and owing on the payments regardless of whether it was taxable income or not.

Not only should a business avoid accepting non-taxable payments, a business should ensure it is not issued a 1099-K along with a Form 1099-MISC for the same transaction. Prior to the introduction of the 1099-K, businesses were required to provide a 1099-MISC for any payments over $600 annually. The IRS has directed that payment should only be reported on a 1099-K. However, I recommend to avoid double taxation, keep detailed sales records and deduct any payments also reported on a 1099-MISC from the 1099-K payment before reporting them on your tax return and be prepared to explain the deductions to the IRS.

Attorneys

- David T. Potts