

Form 1099-K

New Law Lowers Filing Threshold – What Does It Mean to Your Clients?

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National Association of Tax Professionals

1010

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 Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns. |
| Check to indicate if FILER is a (an): Payment settler <input type="checkbox"/> Electronic Payee (EPF)/Other third party <input type="checkbox"/> | | PAYEE'S TIN | Form 1099-K (Rev. January 2022) | |
| | | 1a Gross amount of payment card/third party network transactions \$ _____ For calendar year 20__ | 2 Merchant category code | |
| Check to indicate transactions: Payment settler <input type="checkbox"/> Electronic Payee (EPF)/Other third party <input type="checkbox"/> | 3 Number of payment transactions | 1b Card Not transaction \$ _____ | 4 Federal withheld \$ _____ | |
| PAYEE'S name | | 5a January \$ _____ | 5b February \$ _____ | Uber |
| Street address (including apt. no.) | | 5d April \$ _____ | 5f June \$ _____ | |
| City or town, state or province, country, and ZIP or foreign postal code | | 5g July \$ _____ | 5h August \$ _____ | |
| PSE'S name and telephone number | | 5i September \$ _____ | 5j October \$ _____ | |
| Account number (see instructions) | | 5k November \$ _____ | 5l December \$ _____ | |
| 2nd TIN not. | <input type="checkbox"/> | 6 State | 7 State identification no. | |
| | | | 8 State income tax withheld \$ _____ | |

What We Will Cover

- 1 Overview
- 2 Know the law
- 3 1099-K roadmap
- 4 Form 1099-K scenarios

Overview

Form 1099-K, *Payment Card and Third-Party Network Transactions*

- Reports payments and transactions from online platforms, apps or payment card processors
- Personal transactions such as sending money to family and friends, not in exchange for goods or services, should not be reported on Form 1099-K

Form 1099-K

Who, what, why, when and how

- *American Rescue Plan of 2021/IRS*
- **New, reduced 1099-K reporting threshold**
- In 2023, >\$1 trillion projected to transact via person-to-person (P2P) apps
- Reduced reporting threshold delayed until 2023 tax year (2024 filing season)
- IRS and real-world scenarios explained

What Is Impacted?

Third-party network transactions



What Is NOT Impacted By the Lower Threshold?

Payment card transactions

Credit & debit card transactions



Visa
Mastercard
Amex
Discover

They are already required to report all amounts and transactions

P2P Apps Have Seen Unprecedented Growth

- 64% of Americans use P2P
 - 81% of 18 – 29-year-olds use P2P
- It is projected that Zelle*, Venmo and Cash App will have 225 million users by 2025

Consumer Reports, Jan. 24, 2023

What Do We Tax Professionals Have To Do?

- 1 Communicate the law
- 2 Educate and train our clients
- 3 Verify if the 1099-K is correct
- 4 Report correctly on the tax return

Know the Law

The Law – Report Your Income

- There are no changes to what counts as income or how the tax is calculated
- You must report all your income on your tax return, unless it's excluded by law

Personal

Hobby

Business

Investment

Know the Law – 1099s

1

1099-K

Used to report payment card and third-party network transactions

2

1099-MISC

Used to report nonemployee earnings from income streams like royalties, rent and prize winnings

3

1099-NEC

Reinstated in 2020 to report payments made to independent contractors

Form 1099-K

Used to report **all payment card transactions**




Form 1099-K, Cont.

Used to report **third-party payment network transactions** above the minimum reporting thresholds

2022

2023



Gross payments that exceed \$20,000, **AND**
More than 200 transactions

Gross payments for goods and services that exceed \$600, **AND**
Any number of transactions

Roadmap

If Your Client Gets a 1099-K, Ask Questions

- Personal?
 - Hobby?
 - Business?
 - Investment?
 - Transfer?
 - Shared account?
- Documentation?

Fees Paid to Sell Personal Items Online

- 1099-K reports gross amounts of payment transactions
- Not adjusted for
 - Fees
 - Refunds
 - Chargebacks
 - Other costs

Adjust your gain or loss on personal items by your selling expenses.

Train Your Clients

Document, document and document

Documents must support personal, hobby, business or investment transactions.

Form 1099-K Scenarios

Received Form 1099-K in Error

If:

- 1099-K not yours or duplicate
- Payee TIN incorrect
- Gross amount incorrect
- # of transactions incorrect
- Merchant category code (MCC) does not correctly describe your business

Recourse:

- Contact payment settlement entity (PSE)
 - Name and number should be in lower-left of form
- Contact filer
 - Number shown in upper-left corner of form
- Retain all correspondence

Received Form 1099-K in Error

No recourse...

Reimbursed a friend \$800 for a concert ticket he bought

| | | | | | | | |
|---|--|---|----|----|-----|----|--|
| <p>SCHEDULE 1 (Form 1040)</p> <p>Department of the Treasury Internal Revenue Service</p> | <p>Additional Income and Adjustments to Income</p> <p>Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.</p> | <p>OMB No. 1545-0074</p> <p style="font-size: 2em; font-weight: bold;">2022</p> <p>Attachment Sequence No. 01</p> | | | | | |
| Name(s) shown on Form 1040, 1040-SR, or 1040-NR | | Your social security number | | | | | |
| Part I Additional Income | | | | | | | |
| <p>z Other income. List type and amount: 1099-K Received in Error</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%; text-align: center;">8z</td> <td style="width: 40%; text-align: center;">800</td> <td style="width: 10%;"></td> <td style="width: 25%;"></td> </tr> </table> | | | | 8z | 800 | | |
| | 8z | 800 | | | | | |
| <p>9 Total other income. Add lines 8a through 8z</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">9</td> <td style="width: 25%;"></td> </tr> </table> | | | | | | 9 | |
| | | | 9 | | | | |
| <p>10 Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">10</td> <td style="width: 25%;"></td> </tr> </table> | | | | | | 10 | |
| | | | 10 | | | | |
| <p>For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2022</p> | | | | | | | |

Schedule 1 (Form 1040) 2022 Page 2

| | | | | | | | | | |
|--|--|--------------------------|-----|-----|--|--|--------------------------|-----|-----|
| Part II Adjustments to Income | | | | | | | | | |
| <p>z Other adjustments. List type and amount:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 40%; text-align: center;">1099-K Received in Error</td> <td style="width: 10%; text-align: center;">24z</td> <td style="width: 25%; text-align: center;">800</td> </tr> </table> | | | | | | | 1099-K Received in Error | 24z | 800 |
| | | 1099-K Received in Error | 24z | 800 | | | | | |
| <p>25 Total other adjustments. Add lines 24a through 24z</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">25</td> <td style="width: 25%;"></td> </tr> </table> | | | | | | | | 25 | |
| | | | 25 | | | | | | |
| <p>26 Add lines 11 through 23 and 25. These are your adjustments to income. Enter here and on Form 1040 or 1040-SR, line 10a, or Form 1040-NR, line 10a</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 40%;"></td> <td style="width: 10%; text-align: center;">26</td> <td style="width: 25%;"></td> </tr> </table> | | | | | | | | 26 | |
| | | | 26 | | | | | | |
| Schedule 1 (Form 1040) 2022 | | | | | | | | | |

Personal

Personal Items Sold at a Loss

Form 1040, Sch. 1

You receive \$600 for selling your couch online.

Cost of couch was \$1,000.

Two ways to report:

Personal Items Sold at a Loss

Form 1040, Sch. 1

| | | |
|--|--|--|
| SCHEDULE 1 (Form 1040) | Additional Income and Adjustments to Income | OMB No. 1545-0074 |
| Department of the Treasury Internal Revenue Service | Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information. | 2022 Attachment Sequence No. 01 |
| Name(s) shown on Form 1040, 1040-SR, or 1040-NR | | Your social security number |
| Part I Additional Income | | |
| z Other income. List type and amount: | | |
| 1099-K Personal item sold at a loss | | 8z 600 |
| 9 | Total other income. Add lines 8a through 8z | 9 |
| 10 | Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 | 10 |

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2022

OR

Schedule 1 (Form 1040) 2022 Page **2**

| | | |
|--|--|-----|
| Part II Adjustments to Income | | |
| z Other adjustments. List type and amount: | | |
| | | 24z |
| 25 | Total other adjustments. Add lines 24a through 24z | 25 |
| 26 | Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a | 26 |

Schedule 1 (Form 1040) 2022

If No Receipt for Personal Items You Sold

- If records lost, destroyed or not available due to circumstances beyond your control, and you are audited
 - Examiners may allow you to present reconstructed records, or
 - Examiners may accept oral testimony

Mix of Personal Items Sold

Some at a gain and others at a loss

- Your gains and losses are to be reported separately

and

- Gains on the sale of personal assets cannot be offset by losses from the sale of personal assets

Mix of Personal Items Sold – Example

- Sold two sets of four tickets (bought for personal use) to two separate sporting events for \$1,000
- Sold one set for \$800
- Sold the other set for \$200
- Purchased each set for \$250 (\$500 total)
- Purchased two months prior to selling them

Sold Set Two for \$200

SCHEDULE 1 (Form 1040) **Additional Income and Adjustments to Income** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service **2022** Attachment Sequence No. 01
 Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR Your social security number

Part I Additional Income

| | | | | |
|-----------|---|-----------|------------|----------|
| z | Other income. List type and amount: 1099-K Personal item sold at a loss | 8z | | |
| 9 | Total other income. Add lines 8a through 8z | | 200 | 9 |
| 10 | Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 | 10 | | |

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2022

OR

Schedule 1 (Form 1040) 2022 Page 2

Part II Adjustments to Income

| | | | | |
|-----------|--|------------|------------|--|
| z | Other adjustments. List type and amount: 1099-K Personal item sold at a loss | 24z | 200 | |
| 25 | Total other adjustments. Add lines 24a through 24z | 25 | | |
| 26 | Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a | 26 | | |

Schedule 1 (Form 1040) 2022

Hobby

Hobby Rules

- Activity does not raise to the level of a trade or business
- You only get COGS and no business expenses
- Report on Schedule 1, *Additional Income and Adjustments to Income*

Business

Schedule C – Trade or Business

| | | |
|---|---|---|
| SCHEDULE C (Form 1040) | Profit or Loss From Business (Sole Proprietorship) | OMB No. 1545-0074 |
| Department of the Treasury Internal Revenue Service | Go to www.irs.gov/ScheduleC for instructions and the latest information. Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065. | 2022 Attachment Sequence No. 09 |
| Name of proprietor | | Social security number (SSN) |
| A Principal business or profession, including product or service (see instructions) | B Enter code from instructions | |
| C Business name. If no separate business name, leave blank. | D Employer ID number (EIN) (see instr.) | |
| E Business address (including suite or room no.) | | |
| City, town or post office, state, and ZIP code | | |
| F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) | | |

Reconciling Information Reporting

Information reporting

- 1099-K
- 1099-NEC
- 1099-MISC

Method of payment

- Check
- Credit card
- Venmo
- ACH

Investment

Schedule D

| | | |
|--|--|--|
| <p>SCHEDULE D (Form 1040)</p> | <p>Capital Gains and Losses</p> <p>Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/ScheduleD for instructions and the latest information. Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.</p> | <p>OMB No. 1545-0074</p> |
| <p>Department of the Treasury Internal Revenue Service</p> | | <p>2022 Attachment Sequence No. 12</p> |
| <p>Name(s) shown on return</p> | | <p>Your social security number</p> |
| <p>Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.</p> | | |
| <p>Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less (see instructions)</p> | | |

Other Issues

Other Issues

- Sharing your credit card terminal with another person or business
- Bought or sold your business during the year

Other Issues, Cont.

- Change your business entity structure during the year
- Business use: multi-sources of income

Take-A-Ways

- Due diligence
- What questions to ask your clients
- Ignoring 1099-K = IRS notice
- Your roadmap

Contact Information

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membership

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