

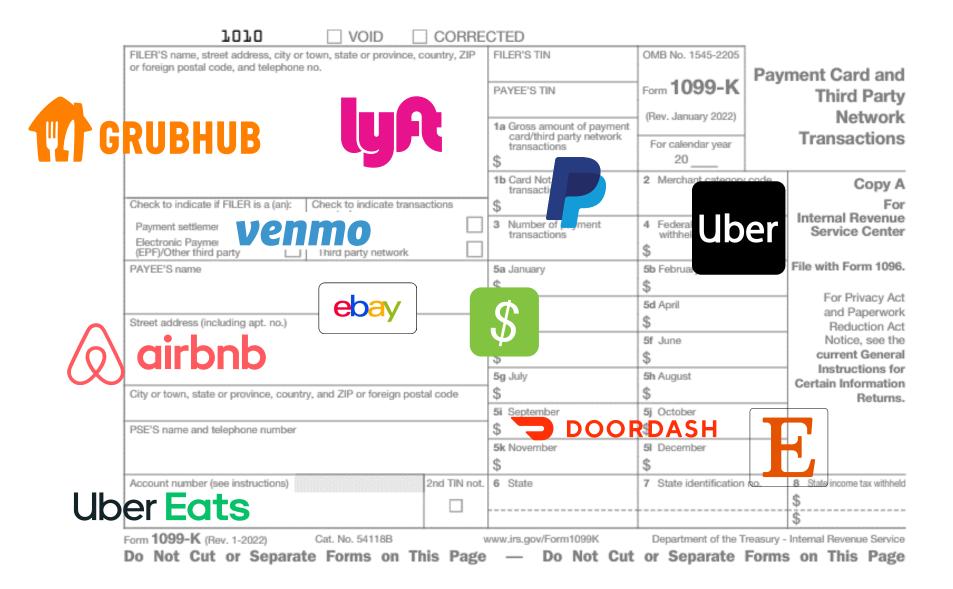
# Form 1099-K

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

> Larry L Gray, CPA, CGMA National Association of Tax Professionals

Rev 6/27/2023







#### What We Will Cover



Overview



Know the law



#### 1099-K roadmap



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



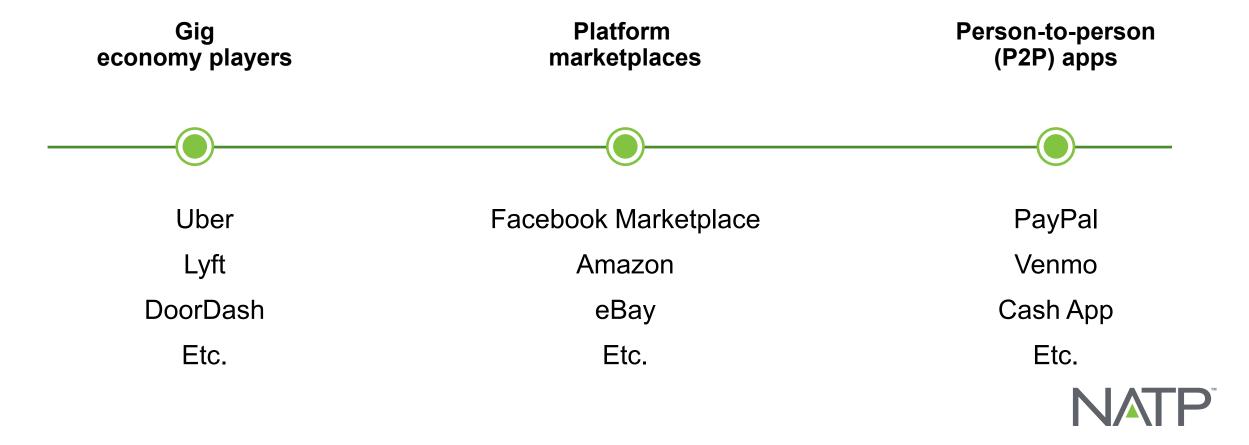
## Form 1099-K

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?



Communicate the law



Educate and train our clients



Verify if the 1099-K is correct



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

#### 1099-K

Used to report payment card and third-party network transactions



1

#### 1099-MISC

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

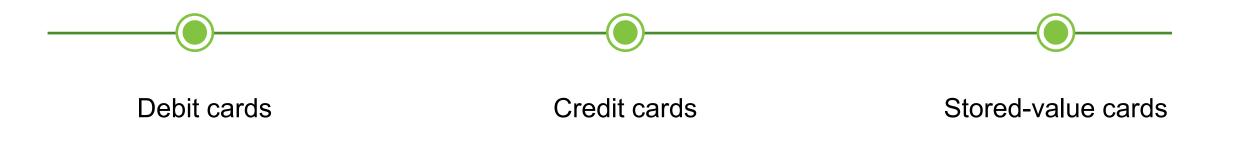


#### 1099-NEC

Reinstated in 2020 to report payments made to independent contractors



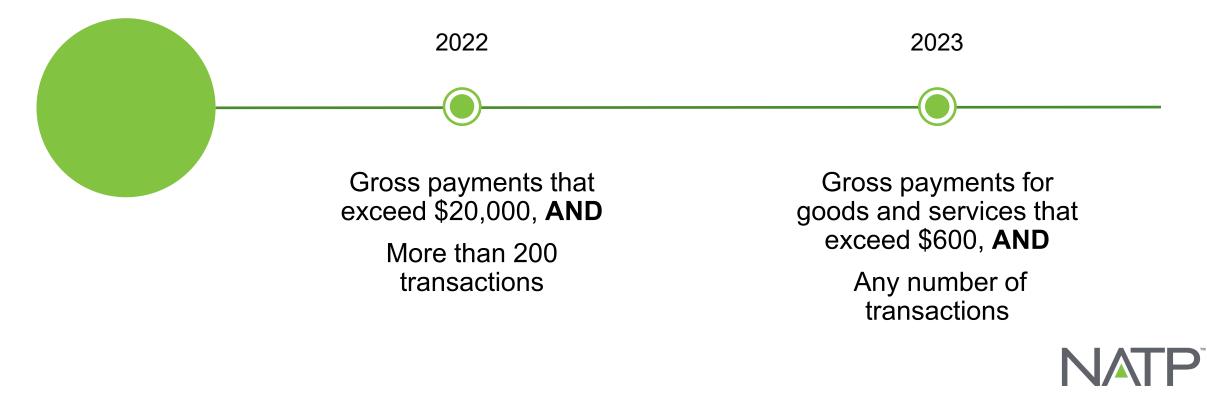
#### Used to report all payment card transactions





Form 1099-K, Cont.

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





# 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

#### lf:

- 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

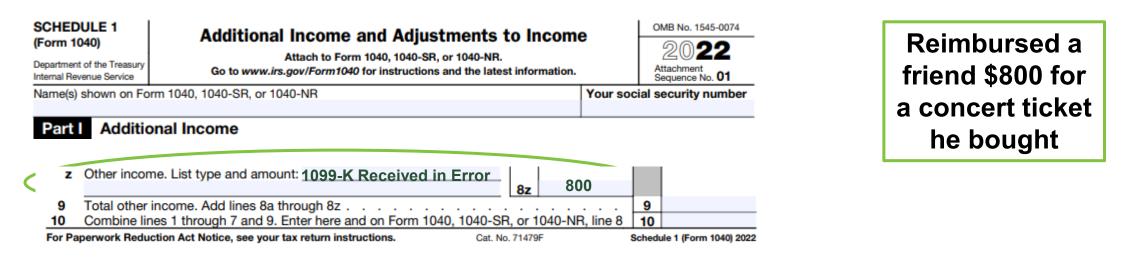
Recourse:

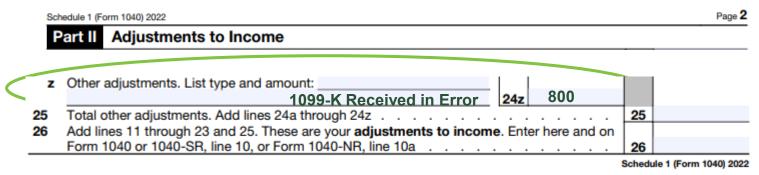
- Contact payment settlement entity (PSE)
  - Name and number should be in lower-left of form
- Contact filer
  - Number shown in upper-left corner of form
- Retain all correspondence





# Received Form 1099-K in Error **No recourse**...





# Personal

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## Personal Items Sold at a Loss Form 1040, Sch. 1

You receive \$600 for selling your couch online.

Cost of couch was \$1,000.

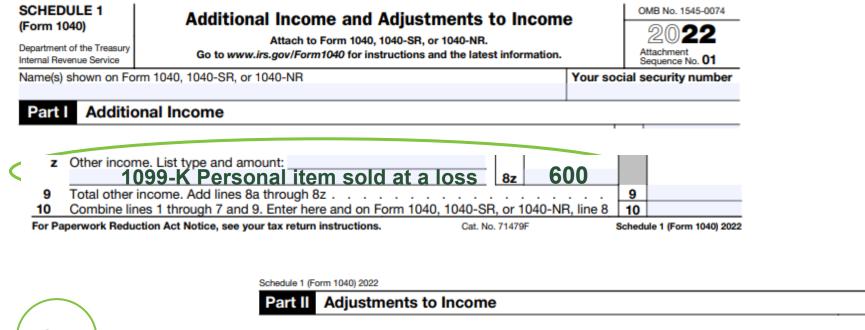
Two ways to report:

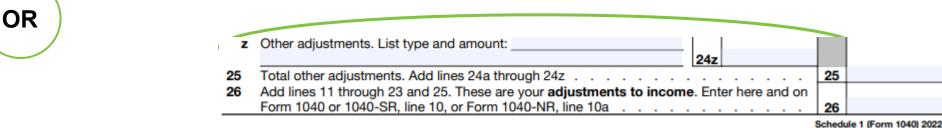




Page 2

# Personal Items Sold at a Loss Form 1040, Sch. 1







\$0

\$400

μ.

## Personal Item Sold at a Loss Form 8949 and Sch. D

1

Couch

Okay to file here if there are other items to file on 8949 or Sch. D ٠

Form <b>8949</b> Department of the Treasury Internal Revenue Service	Goto	o www.irs.gov/For	- m8949 for instructions	and the latest informat es 1b, 2, 3, 8b, 9, and 10	ion.	OMB No. 1545-00 2022 Attachment Sequence No. 12	2
(a) Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (e) in the separate instructions.	If you enter an a enter a co See the sepa	any, to gain or loss amount in column (g), de in column (f). arate instructions. (g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).

\$600

02/14/22

10/01/20

\$1000



# Personal Item Sold at a Gain Form 8949 and Sch. D

#### Sold couch for \$1,200.

• Okay to file here if there are other items to file on 8949 or Sch. D

Form <b>8949</b>	Sales and Other Dis	positions of Capital As	ssets	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service	Go to www.irs.gov/Form8949 File with your Schedule D to list your tran	for instructions and the latest informati sactions for lines 1b, 2, 3, 8b, 9, and 10		2022 Attachment Sequence No. 12A
internal Nevenue Service				Sequence No. 12A

1 (a) Description of property	(b) Date acquired	(c) Date sold or	(d) Proceeds	(e) Cost or other basis See the Note below	If you enter an enter a c See the sep	f any, to gain or loss amount in column (g), ode in column (f). parate instructions.	(h) Gain or (loss) Subtract column (e)
(Example: 100 sh. XYZ Co.)	(Mo., day, yr.)	I disposed of I	(sales price) (see instructions)	and see Column (e) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	from column (d) and combine the result with column (g).
Couch	10/01/20	02/14/22	\$1200	\$1000			\$200

### 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 One Set of Tickets for \$800

Form <b>8949</b>	8949 Sales and Other Dispositions of Capital Assets						
Department of the Treasury Internal Revenue Service	Go to www.irs.gov/Form8949 for instructions and the latest information. File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.						
Name(s) shown on return	er or taxpayer identification number						
statement will have the	A, B, or C below, see whether you received any Form(s) 1099-B or substitute statemer same information as Form 1099-B. Either will show whether your basis (usually your c Il you which box to check.						
	erm. Transactions involving capital assets you held 1 year or less are goos). For long-term transactions, see page 2.	generally short-term (see					
reported	ou may aggregate all short-term transactions reported on Form(s) 1099 I to the IRS and for which no adjustments or codes are required. Enter e D, line 1a; you aren't required to report these transactions on Form 8	the totals directly on					
complete a separate	<b>X A, B, or C below. Check only one box.</b> If more than one box applies for you Form 8949, page 1, for each applicable box. If you have more short-term trans boxes, complete as many forms with the same box checked as you need.						
(B) Short-term	transactions reported on Form(s) 1099-B showing basis was reported to the IF transactions reported on Form(s) 1099-B showing basis <b>wasn't</b> reported to the						

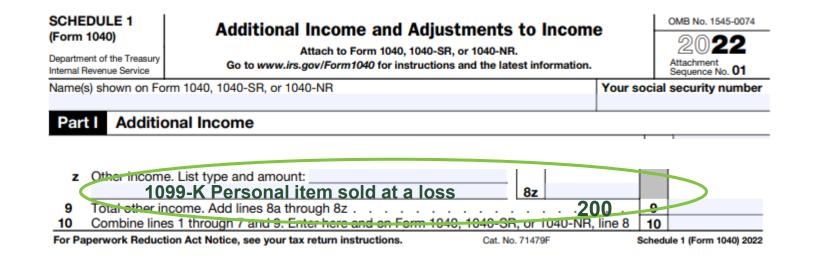
(C) Short-term transactions not reported to you on Form 1099-B

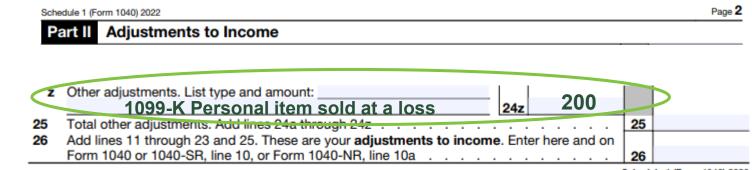
(b)	(c) Date sold or	(d) Proceeds		If you enter an enter a c See the sep	(h) Gain or (loss) Subtract column (e)	
(Mo., day, yr.)	disposed of (Mo., day, yr.)	(sales price) (see instructions)	and see Column (e) in the separate instructions.	(f) Code(s) from instructions	<b>(g)</b> Amount of adjustment	from column (d) and combine the result with column (g).
3/15/22	5/15/22	800	250			550
	Date acquired (Mo., day, yr.)	(Mo., day, yr.) Date acquired (Mo., day, yr.)	(Mo., day, yr.) Date sold or disposed of (Mo., day, yr.) Date sold or disposed of (Mo., day, yr.) (See instructions)	(b) Date acquired (Mo., day, yr.) (Mo., day, yr.) (b) Date sold or (Mo., day, yr.) (b) Date sold or (Mo., day, yr.) (c) (c) (c) (c) (c) (c) (c) (c) (c) (c	(b) Date acquired (Mo., day, yr.)         (c) Date sold or (Mo., day, yr.)         (d) Proceeds (sales price) (see instructions)         (e) Cost or other basis See the Note below and see Column (e) in the separate instructions.         If you enter an enter a c See the sep in the separate instructions.	(b) Date acquired (Mo., day, yr.)         (c) Date sold or (Mo., day, yr.)         (d) Proceeds (sales price) (see instructions)         Cost or other basis See the Note below and see Column (e) in the separate instructions.         enter a code in column (f). See the separate instructions.           (Mo., day, yr.)         (Mo., day, yr.)         (sales price) (see instructions)         Cost or other basis See the Note below in the separate instructions.         See the separate (f) Code(s) from instructions



# Sold Set Two for \$200

OR





Schedule 1 (Form 1040) 2022



#### Sold One Set of Tickets for \$800 & One Set for \$200

Form <b>8949</b>	Sales and Other Dispositions of	Capital Assets	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service	Go to www.irs.gov/Form8949 for instructions and the File with your Schedule D to list your transactions for lines 1b,		2022 Attachment Sequence No. 12A
Name(s) shown on return		Social security number or taxpayer id	entification number
	A, B, or C below, see whether you received any Form(s) 1099-B o same information as Form 1099-B. Either will show whether you		

 Part I
 Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

**Note:** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS

X (C) Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property	(b) Date acquired	(c) Date sold or	(d) Proceeds	(e) Cost or other basis See the Note below	See the separate instructions. Su		(h) Gain or (loss) Subtract column (e)	
(Example: 100 sh. XYZ Co.)	(Mo., day, yr.)	disposed of (Mo., day, yr.)	(sales price) (see instructions)	and see Column (e) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	from column (d) and combine the result with column (g).	
Tickets	3/15/22	5/15/22	800	250			550	
Tickets	3/15/22	5/15/22	200	250	L	50	0	



# 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





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## Schedule C – Trade or Business

(Forn	EDULE C n 1040) ment of the Treasury Revenue Service	Attac			w.irs.	(S gov/Schedul	ole Pro		<b>NESS</b> ne latest information. must generally file F		<b>1065</b> .	2 Attac	No. 154	2
Name	of proprietor									S	cial sec	urity nu	mber (	SSN)
A	Principal busines	s or pro	fess	ion, inclue	ling pro	oduct or servi	ce (see	instructions)		в	Enter co	de from i	nstruct	ions
С	Business name.	f no se	barat	te busines	s name	e, leave blank	<u>.</u>			D	Employe	r ID numb	er (EIN)	(see instr.)
E	Business addres		-											
	City, town or po	st office	, stat	te, and ZI	<sup>o</sup> code									
F	Accounting met	od:	(1)	Cash	(2)	Accrual	(3)	Other (specify)						

## **Reconciling Information Reporting**

#### Information reporting

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

#### Method of payment

- Check
- Credit card
- Venmo
- ACH



# Investment

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#### Schedule D

SCHEDULE D (Form 1040)	Capital Gains and Losses		OMB No. 1545-007
Department of the Treasury Internal Revenue Service	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.		2022 Attachment Sequence No. 12
Name(s) shown on return		Your soci	al security number
	investment(s) in a qualified opportunity fund during the tax year? Yes 949 and see its instructions for additional requirements for reporting your gain or	No	

# Other Issues

NATE

#### **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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Rolla, MO 65401

573-364-1700

larry@agccpa.com



# THANK YOU!

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