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Balance sheet

Form 1099-K Reporting Changes

By Ann E. Woolum, CPA

Changes made to Form 1099-K, Payment Card and Third-Party Network Transactions, by the American Rescue Plan Act go into effect this year. With a drastically reduced reporting threshold and no transaction minimum, payment settlement entities (PSEs) will furnish a significantly higher number of information returns for payments made in settlement of reportable payment transactions occurring in 2022.

Form 1099-K is used to report payments made to merchants for the purpose of verifying payment income and improving voluntary tax compliance. A PSE files a Form 1099-K

each calendar year detailing payments from payment card transactions and/or payments made in settlement of third-party network transactions (ex: credit card companies) above a de minimis threshold. Forms 1099-K are submitted to the IRS by PSEs, which also send copies to each participating payee. The IRS uses this information to ensure compliance and, if necessary, collect tax from business income (or gross receipts on income tax returns) that may otherwise have gone uncollected.

Congress dropped the minimum threshold for PSEs to file Form 1099-K for a taxpayer from \$20,000 of reportable payments made to the taxpayer and 200 transactions to \$600 (the same threshold applicable to other Forms 1099) starting in 2022. The lower threshold for filing Form 1099-K means many participants in the gig economy (such as Uber or Venmo) will be getting Forms 1099-K for the first time.

Taxpayers who have not been reporting income from this type of work have likely not been documenting deductions. They need to start doing so now to minimize the taxable income they recognize due to the gross receipts reported on Form 1099-K. The IRS is likely to take the position that all of a taxpayer's gross receipts reported on Form 1099-K are income and will not allow deductions unless the taxpayer substantiates them. The main expenses for rideshare and delivery drivers is likely to be vehicle expenses. Taxpayers may deduct either the actual cost of using the vehicle in a trade or business or claim a per mile deduction allowance. Deductions will vary based on the nature of the taxpayer's work. Since you are most likely self-employed, not only will you be required to pay income taxes on the net income, you must also pay self-employment tax.

Taxpayers should begin collecting necessary information now so that they have the needed information and documentation to support their gross receipts and deductions. Taxpayers who receive a Form 1099-K are advised to cross-reference their books to ensure their recordkeeping is accurate.

Please contact us to discuss the new reporting requirements for Form 1099-K if you have questions.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision. You cannot rely upon this information for avoiding tax penalties.

