

Tax Reporting Change Kicks In with 1099-K: IRS Knows When You're Using Payment Services



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Gene Marks:

Hey, everybody. This is Gene Marks, and welcome to another episode of On the Mark. Hey, before we get started, just want to make sure if you have got any topics or things that you would like me to talk about, any advice or help you'd like with your business, or any guests you'd like to recommend, please visit us at payx.me/thrivetopics. That's P-A-Y-X dot M-E forward slash [thrivetopics](https://payx.me/thrivetopics).

All right, enough about that. Let's talk about something really important. And what's really important to you, particularly if you are a small, small business: a freelancer, an independent contractor, somebody that uses payment services like Venmo and PayPal and Zelle and Cash App, you better be careful, because the tax rules have changed a little bit this year, 2022. You want to be aware of that because this rule itself is going to impact millions of small businesses, I believe, this year and the years to follow.

To blame, you can turn to the American Rescue Plan of 2021, one of the most recent stimulus bills that happened at the beginning of 2021. Let me explain to you what this issue is. So, let's suppose you're a small business owner or a freelancer, and you get paid from a digital payment service like PayPal or Venmo or Zelle or Cash App, or any of those third-party settlement providers that is accepting credit cards on your behalf and putting money into your bank account. Let's say you're getting money from your customers that way. Well, if those payments were for goods and services that you sold to customers, well, it was previously up to you to make sure that you were reporting that income on your tax return. And hopefully you were.

Well, there's now going to be something else going on to kind of make sure that you've been reporting all of that income because beginning this year, 2022, if you get more than \$600 from any one of those payment services individually during the course of the year, regardless of how your customers are paying, your payment service is required now to report that amount to the IRS. So, to give an example, let's say you get a \$1,000 in 2022 from various customers that paid you through PayPal. PayPal is going to report to the IRS that, hey, your company got a \$1,000 in payments through its services, and it's also going to send you a report on that as well. And again, it's not just PayPal, it's any of the payment services that you're familiar with, like Venmo and Zelle and Cash App, or even if you're getting your credit card online on your website,

and it's being paid, settled through one of those third-party settlement services, they're going to report that to the IRS.

Now, let's be clear, you should be reporting these amounts of income anyway, but the reality is that there are 30 million small businesses and freelancers and solopreneurs and independent contractors in the United States, and if my client base is any indication, many of them who receive a number of these small payments from any customers throughout the year may, well, let's just say forget to report that to the IRS, particularly if there are many small transactions. We know record keeping isn't great the smaller that you get.

But listen, the IRS is now going to know. So that means that, again, if you're selling stuff on Amazon or Etsy or eBay, or at a craft show, and again, you're using those credit cards and payment services, you're going to get a 1099-K form from those payment services in 2023 for all the transactions that they recorded for you in 2022.

Now, one question that you might have is, well, what if I'm getting payment from a friend or a family member? Do I have to report that as income? Well, generally not, but when people do make payments to you through these apps, they're now going to ask, if you haven't noticed already, they're going to ask those people paying whether or not this payment is for a personal thing or a business thing. So, if you are receiving it from a customer, most customers are going to choose the business option, and because of that, that payment is going to be identified as a business payment.

So, be aware of this, and also be aware that your payment service provider may be coming to you throughout the year, asking you for more questions, more information. They might want to know your W-9 information, your company's tax ID, your social security number, more confirming your address, as well. Those payment information details are going to be needed by all these payments services. So, they're not trying to dig into your personal advice. They just need that information so that they can report this income to the IRS.

Now, there will be some overlap. I mean, obviously, I mean, if you're an independent contractor working for a company, you receive more than \$600 via payment service, you might get a 1099 from your customer, and you might also get a 1099 from the payment service, if that's the way the payment's made. So, you're going to have to be careful that you don't double count the money coming in just because you got two 1099s. It doesn't mean that you have to declare that income twice on your tax return, but it is going to be coming and it's going to be coming soon.

So, remember, for the 2022 tax year, you should consider the amounts shown on your 1099-K when calculating your gross receipts for your income tax return. Remember that. The IRS is going to know about it. The payment services are going to be notifying them. You're going to be getting requests for information from these services, and you're going to be getting these forms at the end of 2022. You'll get them by January 31, 2023.

Bottom line is, you've got to report whatever income you're getting for business purposes because the IRS now has a new way of finding out about you.

So, a merry note to start off the year, but I thought something that would be of importance and relevant to you. So, pay attention. Thank you for listening. My name is Gene Marks. Again, if you are interested in proposing a topic or need some advice or proposing a guest, visit us at payx.M-E/thrivetopics. That's P-A-

Y-X dot M-E forward slash thrive topics. Hope this information helps you and look forward to joining you again next week. Take care.

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