Digital, Digital Break Down: How to Make Sure You're *NSYNC with IRS Changes for Reporting Virtual Payment Transactions

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You may have seen recent headlines warning that the IRS is tracking certain transactions paid using digital payment services such as Paypal, Cash App, Zelle, and Venmo. Even worse, you may have wondered whether a new law could make these commonplace virtual transactions taxable. With so many people relying on digital payment platforms these days to pay for services, request rent from tenants, or pay for dinner at restaurants, you might think "It's Gonna Be Me" who has to pay additional taxes when reading these headlines. Say "Bye, Bye, Bye" to those concerns- you can still receive payment for winning the family March Madness bracket (or, perhaps, reimburse a friend for a bottle of "Pop") without concerning yourself with these new rules.

However, if you run a small business that accepts payment through one or more of the aforementioned digital payment platforms, you should keep reading. You may have heard of the American Rescue Plan Act of 2021 ("ARPA"), which provided emergency grants, lending, and investment to small businesses suffering as a result of the COVID-19 pandemic. One small provision of the American Rescue Plan that quietly went into effect on January 1, 2022, requires businesses to report transactions received from those digital services totaling $600 or more per year.

You may ask yourself- weren't all transactions required to be reported as income on your tax return anyway? The short answer to this question is, yes, they were. However, the previous threshold for these platforms to issue 1099-Ks to users were when the user's annual transactions exceeded $20,000 or 200 total transactions. Thus, this new rule under ARPA allows the IRS to crack down on reporting, honing in on the likes of smaller side hustles, Etsy shops, and Airbnb operators that have increased as a result of the pandemic.

What does this mean for your small business? In the short term, it means you may receive requests for additional information from any digital payment platform you use to ensure they have everything needed to issue a 1099-K, such as your social security number or tax ID. Additionally, some of these platforms have indicated that they will alter their payment process so that small business owners can differentiate between business and personal payments. In the long run, beginning when filing 2022 tax returns next year, you should expect to receive a 1099-K from these platforms to reflect the revenue reported on your behalf to the IRS.

Again, all income received should be reported as income to the IRS on annual tax returns as required by Section 61 of the Internal Revenue Code. This new rule created by ARPA not only heightens reporting requirements to ensure compliance, but will also allow the IRS to collect data to be used for a number of purposes, including "new examination and collection approaches." While it might be "Tearin' Up [Your] Heart" to do so, it's time for small business owners to face the music and embrace these new reporting requirements.

If you have any questions regarding tax compliance for your small business, please consider contacting any member of Flaster Greenberg's Business & Corporate Department.