

Form 1099-K Payments

Introduction

Starting in 2022, entities (such as Venmo, Paypal, Cash App, Uber, Lyft, eBay, Airbnb, etc.) that process credit or debit card payments on behalf of third parties are required to issue Form 1099-K (see Exhibit A – Sample Form 1099-K on page 6) to anyone for whom they process more than \$600 in reportable payment transactions during the year, regardless of the number of transactions involved. This change was due to a provision in the American Rescue Plan Act of 2021. The previous reporting threshold for third party transactions was payments exceeding \$20,000 resulting from more than 200 transactions. Some states already had a lower threshold.

These payments may or may not be taxable income. Taxpayers are responsible for reporting all their taxable income, whether or not Form 1099-K is received.

Payments reported on Form 1099-K

The law continues to require that payment processors (such as Visa and MasterCard) report *all* payment card transactions to merchants that accept payment cards. The new requirement relates to third party network transactions that have become common in the “gig” economy. In this case, the website or app accepts payments on behalf of the taxpayer.

In most cases, only taxpayers with business accounts will receive Form 1099-K. Only payments for goods or services need to be reported. Transactions involving personal gifts, charitable contributions, and reimbursements are excluded from Form 1099-K reporting. However, payers may not always identify these transactions correctly and a Form 1099-K could include such transactions. Also, taxpayers who sell personal items at a loss may receive a Form 1099-K even though there is no taxable gain to report.

A thorough taxpayer interview is required to determine whether there is taxable income which must be reported. Taxpayers may need to obtain and provide more detail on the transactions. A single Form 1099-K may include both taxable and non-taxable payments.

In some cases, a taxpayer may receive a Form 1099-K from a processor that they do not recognize. This is usually because their payment processor has contracted with another processor to handling the filing. A telephone number must be listed on the form, which the taxpayer may call for more information.

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Payments reported on Form 1099-K will generally fall into three categories:

Business income

If a taxpayer is self-employed and has a business, all payments for goods and services offered by the business must be reported on Schedule C. This includes any such payments on Form 1099-K. See the [Schedule C Guidelines](#) document to determine if the business is in scope for Tax-Aide. The Income section of TaxSlayer has a Form 1099-K selection which will bring up Schedule C.

Personal and non-taxable transactions

Sales of personal items at a loss are not taxable, but may be reported on Form 1099-K. The form should not be issued for personal transactions such as reimbursements and gifts (but may occur if transactions were not recorded/reported properly by the taxpayer when setting up either their account or classifying the individual transactions). Taxpayers should be encouraged to use personal accounts rather than business accounts for such payments. Some processors allow the payer to tag transactions as personal (or “friends and family”) to prevent reporting (see Exhibit B – Sample Screen from Payment App on page 6). If a personal transaction is included on Form 1099-K, the taxpayer can contact the processor and attempt to have the payments reclassified and the form reissued.

If the processor will not reissue a Form 1099-K which includes payments that are not taxable income, the taxpayer may wish to report these payments and provide an explanation. Do *not* report the payments using the “Form 1099-K” selection under “Income” in TaxSlayer. Instead, select “Income”, then “Other Income”, then “Other Income Not Reported Elsewhere”. Choose “Other Income” from the dropdown menu and describe it as Form 1099-K payments. Then use a negative “Other Income” entry to offset the non-taxable amounts, with a short description indicating why the payment is not taxable income. Add a note in TaxSlayer explaining these entries. Warn the taxpayer that the IRS may still contact them about the payments. Taxpayers should keep complete and accurate records of the payments for at least three years.

Out of scope

Most other payments which might be reported on Form 1099-K are out of scope:

- Rental income from Airbnb or similar providers
- Selling personal property for more than the original cost
- Selling property which was used in the taxpayer's business
- Payments received from hobbies or other not for profit activities

Taxpayers with such payments, whether on Form 1099-K or not, should seek assistance from a tax professional.

Examples

Example 1 – Business:

Ahmed is self-employed as an Uber driver. Most of his riders paid with credit cards through the app. Uber sent Ahmed a Form 1099-K showing payments of \$6,320. Ahmed had additional cash receipts and tips totaling \$400. Uber also sent Ahmed a Form 1099-NEC showing \$800 of promotional bonuses and referral fees in box 1. Ahmed made a profit and met the other scope criteria for Tax-Aide.

All income and expenses must be reported on Schedule C. Generally, the Form 1099-K amount, the Form 1099-NEC amount, and the cash receipts should all be reported as income. In this example, Ahmed's Gross receipts would be \$7,520. Be careful not to duplicate amounts that are listed both on these forms and on other reports from Uber. The gross amounts must be reported – they will not match the deposits to Ahmed's bank account, as fees will have been deducted before the deposits were made. The fees must be reported separately as expenses on Schedule C.

Example 2 – Casual sales:

Betty held an online "garage sale" on eBay, where she auctioned off numerous items of clothing and toys which she had owned for several years. Betty also sold used furniture on Facebook Marketplace and received payment via Venmo transactions that were tagged as "Goods and services." All items were sold for much less than the original purchase price. Betty received Forms 1099-K from both eBay and Venmo.

Since all items were sold for a loss, Betty has no taxable income or capital gains. Losses on personal items are not deductible. Betty may wish to report the 1099-K payments and provide an explanation to the IRS. See the instructions above.

Example 3 – Gifts:

Carol's mother Cassandra had significant medical expenses which were not covered by insurance. Carol organized a GoFundMe campaign which raised \$4,000. Carol used the entire amount (less the GoFundMe fees) to pay Cassandra's medical bills. Carol received a 1099-K for \$4,000.

Since Carol did not provide anything in exchange for the payments, they are considered gifts. Carol took no portion of the payment as a fee. Neither Carol nor Cassandra have taxable income. If there is any doubt that the contributions were bona-fide gifts (that is, the result of the contributors' detached and disinterested generosity), Carol should seek assistance from a tax professional. For example, contributions from an employer are not considered gifts. Carol may wish to report the 1099-K payment and provide an explanation to the IRS. See the instructions above.

Example 4 – Group activity:

DeShandra organized a reunion trip for several of her college chums. She found and rented a resort property for the group for a week. She divided the total evenly among herself and her girlfriends, and they reimbursed her by transferring money using Venmo. DeShandra has a business profile with Venmo. She received a 1099-K from Venmo including \$5,200 of payments received for this trip.

DeShandra is not in the business of arranging trips and did not receive any compensation for planning the trip. The payments are reimbursements, not taxable income. DeShandra should consider creating a personal Venmo profile for such payments. She may wish to report the 1099-K payment and provide an explanation to the IRS. See the instructions above.

Example 5 – Rental exclusion:

Ed and Elly live not far from the football stadium and listed their house on Airbnb for the week before the Super Bowl. They left town for the week to visit relatives. That was the only time during the year they rented their house. They received a Form 1099-K for \$2,800 for the week.

Since they rented the house for less than 15 days, they have no taxable income. They may wish to report the Form 1099-K payment and provide an explanation to the IRS. See the instructions above.

Example 6 – Depreciation:

Fernando purchased a used car six years ago for \$12,000. Since then, he has been self-employed as a DoorDash driver and took the standard mileage deduction on Schedule C for approximately 5,000 miles each year. This year, he sold the car on eBay for \$8,000 and received a Form 1099-K for that amount.

Fernando received less than his purchase price for the car. However, he used the car in a business and a portion of the standard mileage deduction is considered depreciation. Fernando must reduce the cost basis of the car by the depreciation amount to determine if he has a reportable gain or deductible loss. This calculation (which is described in chapter 4 of Pub. 463), and any resulting gain or loss, are out of scope for Tax-Aide. Fernando should seek assistance from a tax professional.

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Example 7 – Reseller:

Guiying likes to frequent garage and yard sales on the weekends. She buys in bulk and resells the items on Etsy and eBay. She does this regularly and considers it a business, as she earned several thousand dollars in profits this year. She received Forms 1099-K from both Etsy and eBay. Guiying does not maintain an inventory. She meets the other requirements to be in scope for Tax-Aide.

All income and expenses must be reported on Schedule C. The Form 1099-K amounts should be reported as income. The gross amounts should be reported. Any fees deducted by the platforms must be reported separately as expenses. The cost of the goods purchased can be expensed in the year paid as Other Expenses in TaxSlayer.

Example 8 – Roommates:

Howard shares an apartment with a friend. Howard pays the entire \$1500/month rent and his friend reimburses him using Zelle for half the amount. Howard also received a \$500 Christmas gift from his parents using Zelle. Howard and his roommate set up Zelle through their banks. Howard did not receive Form 1099-K.

Note: Zelle does not consider itself to be a payment processor, but a messaging service, and does not currently issue Form 1099-K.

None of the payments are considered taxable income and do not need to be reported. If Howard mistakenly received Form 1099-K from his bank, he should tell his bank that the payments were personal reimbursements and gifts and not business related. He could also report the Form 1099-K payment and provide an explanation to the IRS. See the instructions above.

Example 9 – Business crowdfunding:

Ivan wanted to start a business selling custom T-shirts. In order to raise money to buy equipment, he started a project on Kickstarter. He promised a free custom T-shirt to anyone who contributed \$100 or more. He raised \$2,500, and most contributions were at least \$100. Ivan received Form 1099-K showing \$2,500 in payments.

Generally, funds raised in reward-based campaigns are considered business income. If Ivan's business is in scope for Tax-Aide, and Ivan agrees that the entire \$2,500 is income, it should be reported as such on Schedule C. If Ivan believes that part of the \$2,500 should be considered a non-taxable gift, he should seek assistance from a tax professional.

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Exhibit A – Sample Form 1099-K

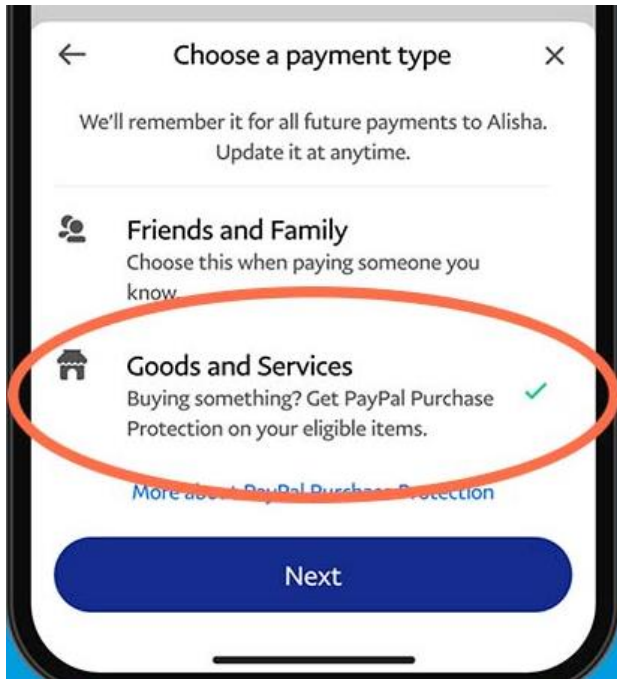
Box 1a contains the gross payments which are normally reported along with cash income on Schedule C in TaxSlayer. Box 1b is not used for third party network transactions.

CORRECTED (if checked)

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 Form 1099-K (Rev. January 2022) For calendar year 20__	Payment Card and Third Party Network Transactions
		PAYEE'S TIN		
		1a Gross amount of payment card/third party network transactions \$		
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>	Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>	1b Card Not Present transactions \$	2 Merchant category code	Copy B For Payee This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
		3 Number of payment transactions	4 Federal income tax withheld \$	
PAYEE'S name		5a January \$	5b February \$	
Street address (including apt. no.)		5c March \$	5d April \$	
City or town, state or province, country, and ZIP or foreign postal code		5e May \$	5f June \$	
PSE'S name and telephone number		5g July \$	5h August \$	
Account number (see instructions)		5i September \$	5j October \$	
		5k November \$	5l December \$	
		6 State	7 State identification no.	8 State income tax withheld \$
				\$

Form **1099-K** (Rev. 1-2022) (Keep for your records) www.irs.gov/Form1099K Department of the Treasury - Internal Revenue Service

Exhibit B – Sample Screen from Payment App



Payments apps may allow the payer to select the type of payment.

If "Friends and Family" is selected, there should be no Form 1099-K.

If "Goods and Services" is selected, a Form 1099-K to the seller is likely if the total for the year is \$600 or more.