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Tax Advisory: Payment App Tax Rule Changes

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Tax reporting changes that go into effect in January 2022, will have an impact on those who use payment apps such as Venmo, PayPal (which now owns Venmo), Square, and other third-party electronic payment networks.

Starting in January, app providers will be required to start reporting to the Internal Revenue Service (IRS) if a user's business transactions (defined as a payment received for a good or service) total $600 or more (in the aggregate) for the year.

This new adjustment to the tax reporting rule is a result of a provision found in the American Rescue Plan Act of 2021, designed to target unreported, taxable income.

In order for companies, individuals and apps to comply, apps may ask users to provide or update certain personal identifiable information, such as social security numbers, employer identification numbers, individual tax ID numbers and even complete a 1099-K form. PayPal recently informed its users that in the coming months, such information may be requested by PayPal.

Prior to the change, app providers were only obligated to provide a 1099-K form to the IRS if an individual account had at least 200 business transactions in one year, and if such transactions combined resulted in gross payments of at least $20,000.

While this mandate may mean completing some extra paperwork than usual for small business owners, it does not change any basic tax responsibilities. Income derived from a good or service (tips included) has always been reportable/taxable.

At the end of the day, to the extent a taxpayer receives a 1099-K form for a non-taxable transaction (splitting a dinner bill, splitting rent with roommates, etc.), it will be up to the taxpayer to explain such non-taxable transaction to the IRS. Further, businesses may notice business transactions reported in duplicate, which will also require explanation to the IRS. For example, independent contractors may receive a 1099-K form from the payment app, and a 1099-MISC from their customer, both regarding the same transaction.

One workaround to this potential concern is to keep taxable and non-taxable transactions separate by using different payment methods, or, for example, only use a payment app for taxable business transactions.

Should you have questions about taxes or other corporate issues, please contact any member of our Corporate & Business Law Group listed below or any other Meyer, Unkovic & Scott attorney with whom you have worked.

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