



IRS DELIVERS EARLY CHRISTMAS GIFT BY DELAYING FORM 1099-K \$600 REPORTING THRESHOLD

November 29, 2023

IRS Form 1099-K (*Payment Card and Third Party Network Transactions*) is used to report payments and transactions from e-commerce payment platforms, apps and payment card processors such as Venmo, Paypal, Cash App, Etsy and Ticketmaster. For tax years prior to 2023, these platforms were required to file Form 1099-K with the IRS and the account holder only if the account holder conducted over 200 transactions and received gross payments for goods and services totaling more than \$20,000 for the year through the platform. The American Rescue Plan Act of 2021 significantly modified the Form 1099-K reporting threshold for tax years starting in 2023 to a threshold of more than \$600 in aggregate payments without any consideration of the number of transactions (“\$600 reporting threshold”). Many professionals in the tax community raised concerns that the \$600 reporting threshold was far too low, would lead to significant taxpayer confusion and misunderstanding, and would result in millions of unnecessary Forms 1099-K creating an increase in the IRS correspondence and processing backlog.

Following feedback from taxpayers, tax professionals and e-commerce companies, and to reduce taxpayer confusion, the IRS delivered an early Christmas gift to gig workers, Taylor Swift and Detroit Lions (no this is not a misprint) ticket sellers and other online sellers. In Notice 2023-74 issued on November 21, 2023, the IRS announced a delay in the new Form 1099-K \$600 reporting threshold for third-party payment processors for tax year 2023. As a result, the existing \$20,000/200 transaction threshold will remain in effect for the tax year 2023. Without the delay of the \$600 reporting threshold, the IRS expected to receive 44 million 1099-K forms—about a 30 million increase. As a limited exception to the delay, where account holders cannot confirm their taxpayer status, e-commerce companies are required to withhold a portion of their payments for potential income tax due and send it to the IRS. The \$600 reporting threshold will still apply in these scenarios

In an announcement also issued on November 21, 2023, the IRS stated that it is planning for a Form 1099-K reporting threshold of \$5,000 for the tax year 2024 as part of a phase-in to implement the \$600 reporting threshold. The announcement also reminds taxpayers that the reporting requirements do not apply to personal transactions such as birthday or holiday gifts, sharing the cost of a car ride or meal or paying a family member or another for a household bill.

It is important to note that the changes in the law only apply to third-party reporting, not a taxpayer’s individual tax obligations—it has always been the case that a taxpayer must report his/her taxable income, whether it is payable in cash, on a credit card, through a business checking account, or through a cryptocurrency platform. In addition, some states such as Massachusetts and Vermont have their own \$600 reporting requirement that taxpayers may need to consider during the 2024 and 2025 tax filing seasons.

If you have any questions regarding this alert, please contact your Cummings & Lockwood private clients attorney.