

The Internal Revenue Service (IRS) have made us all aware that in 2023 reporting rules changed for Form 1099-K. Form 1099-K was first introduced by IRS in 2012 to report to the IRS merchant transactions processed by bank and credit card merchants and to report those payments to the IRS.

For 2023 tax season that covers 2022 calendar year the IRS changed requirements imposed on Payment Card and Third-Party Network Transactions processors such as Venmo or PayPal¹. Now they must report to the IRS transactions of more than \$600² for the year in total.

While the change targets business transactions it's possible some filers will receive 1099-Ks for personal transfers. Money received through third party payment networks from friends and relatives as personal gifts or reimbursements for personal expenses is not taxable. In case you received 1099-K erroneously you should contact issuers directly to fix errors or make required adjustments.

This new requirement might mean a lot of changes for a lot of the taxpayers. Form 1099-K should be issued by January 31 of 2023. If you're eager to file your 2022 tax return in January or early February, the IRS cautions the early filers to wait for all the income reporting forms before filing in 2023 including 1099-K.

It is critical to have all income forms such as W-2, 100-99-K, 1099-NEC, 1099-MISC, 1099-G, W2-G and others available when filing the tax return. You can get away without the forms if you have good personal records regarding your income and you can accurately report all your income line items on your tax return.

Some patience and a short delay – till March - could save time and effort, because if you don't report 1099-K income, you may owe money and need to file an amended return.

If you neglect to report the correct income on your tax return and substantially understate your income tax, you likely will have to pay an accuracy-related penalty. In

¹ Currently payments processed by Zelle are not subject to this reporting requirements.

² The reporting threshold was \$20,000 before the latest changes.

case of substantial underpayment which IRS considers to be the greater of 10 percent of the correct tax or \$5,000 the penalty will be equal to 20 percent of the underpayment. Please note that your tax professional has only very limited tools to abate that penalty.

And as always contact your tax professional who is in the best position to give you a reasonable piece of advice.