



What is a 1099 K?

First, let's answer, "what is a 1099-K?" Form 1099-K, Payment Card and Third-Party Network Transactions, is a tax form that should be filed with individual tax return. Unlike other varieties of the Form 1099, this form has a special purpose for payments received via a third-party network or credit/debit card transaction.

Do your clients sell items on eBay, drive for a ridesharing service, or own a business that accepts payments via credit or debit cards? If you answered yes to any of these questions, there is a good chance your clients will receive a Form 1099-K.

What is a 1099-K used for?

Essentially, it's used to report transactions made via a payment settlement entity. Simply put, if you use a service to process credit or debit card transactions, that service is a payment settlement entity, and the amount of those types of transactions for the year should be reported on the Form 1099-K.

When is Form 1099-K issued?

Not everybody who uses such a service will receive a Form 1099-K, because technically the form is not required to be issued for tax years 2021 and before unless:

- from payment card transactions (e.g., debit, credit, or stored-value cards), and/or
- in settlement of third-party payment network transactions above the minimum reporting thresholds of
 - The service processed more than \$20,000 worth of payments, and
 - The service processed more than 200 individual payments.

If you don't meet those requirements, you are not required to be issued a Form 1099-K. There is no threshold for payment card transactions.

With that being said, the rule is just when the form is required. Many entities that process card payments on behalf of their customers will issue a 1099-K form when the number of payments and number of payments are far below this threshold. Some will even issue the form when there is a little as one transaction processed during the year.

In 2022, the rules for Form 1099-K will change. The payee must be issued a Form 1099-K if the service processed more than \$600 worth of payments regardless of the number of individual payments or transactions.

Taxation of amounts from Form 1099-K

Most individuals' 1099-K form reports payments to their trade or business. As such, the income for sole proprietors is reported on their Schedule C as gross receipts subject to the self-employment tax.

Partnerships and corporations would report those amounts in a similar manner on their returns.

IRS enforcement of the 1099-K form reporting

When it first debuted in 2011, Form 1099-K was treated as almost a second thought. In fact, there was even a special line on the Form 1040 for amounts from the form that taxpayers were specifically instructed to ignore.

Since then, the IRS has started contacting taxpayers whose gross business income is less than the amount reported on the form.

Don't accept nontaxable payments via credit or debit card

It may not be advisable to accept non-business payments using a card reader. For example, if you split the rent with your roommate, it's probably not a good idea to have them pay you for their half using their debit card and a smart-phone card reader, because the processor will not be able to differentiate the payment and may issue a Form 1099-K including the rent payments.

Splitting rent with your roommate is not generally a taxable transaction, but the IRS will probably send you a notice if you're issued a Form 1099-K and that amount does not appear anywhere on your return.

1099-K instructions

Need some 1099-K instructions? Here are the form fields on Form 1099-K:

VOID CORRECTED

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	2020	Payment Card and Third Party Network Transactions
		PAYEE'S TIN	Form 1099-K		
		1a Gross amount of payment card/third party network transactions \$	2 Merchant category code		
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"/>	3 Number of payment transactions \$	4 Federal income tax withheld \$	Copy 1 For State Tax Department
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** www.irs.gov/Form1099K Department of the Treasury - Internal Revenue Service

- Filer's name, address, and phone number
- Filer's Tax Identification number (TIN)
- Payee's TIN
- Check to indicate if filer's a Payment settlement entity or Electronic Payment Facilitator
- Check to indicate transactions reported are: payment card or a third-party network
- Payee's name, address, PSE's name, telephone number, and account number
- Gross amount of payment card/third-party network transactions
- Card not present transactions
- Merchant category code
- Number of payment transactions
- Federal income tax withheld
- 5a-5l: Income earned by month, January through December
- State
- State identification number
- State income tax withheld

There are multiple forms that will be filed:

Copy A: For the IRS

Copy 1: For state tax departments

Copy B: For payee

Copy 2: To be filed with the receipt's state income tax return, when required

Copy C: For Filer