

1099 requirements and third party payments

Senate Finance

2/21/17

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1099 – General Rule

- Every person engaged in trade or business needs to file an informational return (i.e., a 1099) with the IRS for payments of:
 - Salary, wages, commissions, fees, or compensation of \$600 or more
 - Interest, rent, royalties, annuities, pension, or other gains or profits of \$600 or more
- Payer files a 1099 with IRS and provides a copy to the payee.

Credit card and third party settlement organizations

- If a payment is made through a credit card company or a third party settlement organization, such as Paypal, different rules apply.
- The credit card company or third party settlement organization files an informational return related to payment (a 1099-K), not the person making the payment.

Example – credit cards

- Customer A pays Merchant B \$1000 for goods, using a credit card. Bank Z is the “merchant acquiring entity” that has contracted to make payments for people using Customer A’s credit card.
- Bank Z files an informational return (1099-K) with the IRS and sends a copy to Merchant B.

Example – third party settlement organizations

- Customer A purchases goods over the internet from Merchant B worth \$1000. Merchant B has contracted with a third party settlement organization, Payer Z, to handle payments made by its customers.
- Payer Z does not file an information return (1099-K) unless the total payments it makes from all purchasers to Merchant B exceed:
 - \$20,000, AND
 - 200 individual transactions

The difference

- Credit card companies must file 1099-Ks for payments above \$600.
- Third party settlement organizations must file 1099-Ks if they have \$20,000 in payments and 200 transactions with a single payee.

Current law

- The reporting requirements (1099-K) for credit card companies and third party settlement organizations were added at the federal level in 2010.
- In 2014, Vermont added a requirement that anyone filing a 1099-K at the federal level would need to provide the State with a copy of that report within 30 days of filing it with the IRS.
- This change was added to cut down on the time it took the Vermont Department of Taxes to see this federal data.

Proposed language

- Requires third party settlement organizations to provide additional information to the State, above the federal requirements.
- Third party settlement organizations would be required to report any payments above \$600 made to a merchant with a Vermont address, with no limit on the number of transactions.
- Makes it clear that the failure to provide 1099 data is treated like a failure to file a return, subjecting the person to possible contempt and penalties.

Preliminary Revenue Estimate

1099-K Notifications

- Adding reporting of credit card and third party transactions between \$600 and \$20,000/200 transactions is being proposed by the MA Governor in the Administration budget.
- Massachusetts Department of Revenue estimates \$20 million in additional revenue from increased income tax compliance due to this reporting.
- Analysis in MA using 1099 return data from 2014, growth to 2017, average effective income tax rate, and assumed 3-4% increased compliance rate. “Conservative estimate”
- Scale MA estimate to Vermont: \$1.5 to \$1.8 million preliminary estimate. Need a state-specific estimate using VT 1099-K data.