

## 1099-K: lower reporting thresholds and greater responsibility for TPSOs



For 1099-K reporting due in January of 2023 to report 2022 payments, third-party settlement organizations (TPSOs) will be transitioning from processing minimal volumes of Forms 1099-K to many thousands of forms. TPSOs need to be ready to validate data files and review tax form output to satisfy IRS regulations (and may already be required to backup withhold in some cases).

### What is a third-party settlement organization (TPSO)?

- ▶ A TPSO is a marketplace, platform or brick and mortar location that connects buyers and sellers of goods or services and provides a way for buyers to pay sellers for those goods or services.
- ▶ For calendar year 2022, TPSOs must report payments made to any sellers who received more than \$600 during the year.
  - ▶ In prior years, sellers were only subject to reporting if they engaged in more than 200 transactions and received more than \$20,000 during the calendar year.
- ▶ This reporting responsibility is on credit card and other payment processors, cash settlement applications and other intermediaries, as well as platforms that connect buyers and sellers such as dog walking sites, food delivery sites, ticket exchanges, rental property search sites and auction houses that process their own payments.

### What TPSOs should be considering now

- ▶ How does this requirement apply to us?
- ▶ Have we adjusted our systems for the new Form 1099-K reporting thresholds, and are we prepared for reporting?
- ▶ Do we presently have tax identification numbers (TINs) for all new and legacy participating payees? Have we addressed or remediated any gaps?
- ▶ Do we validate information collected and are we prepared for the expected increase in “B Notices” as the result of the higher reporting volume?
- ▶ Are our systems ready and able to identify and trigger backup withholding/depositing with the IRS?
- ▶ How are we communicating with payees to ensure compliance, while not frustrating their experience with our organization?

### How we are collaborating with TPSOs

The EY Information Reporting and Withholding practice is working closely with TPSOs to assist with a technical analysis of reporting and withholding responsibilities and remediation of current payee information to meet their 2022 TIN solicitation and Form 1099-K reporting requirements.

#### Form 1099-K reporting: data extraction, data validation, form generation

- ▶ Providing leading support for TPSOs' Form 1099-K preparation by streamlining the extraction of data from systems and mapping data to reporting templates
- ▶ Validating and analyzing data files to confirm compliance with regulatory requirements, performing TIN validation and confirming IRS FIRE file validations
- ▶ Generating Forms 1099-K for reporting to IRS and delivery to participating payees

#### Additional reporting support

- ▶ Leading TPSOs leverage the EY proprietary tax form validation solution: eTFV (electronic tax form validator) to import and validate IRS Forms W-9/W-8 to ensure user information (including TINs) is accurately collected, cementing the foundation of the payee journey.
- ▶ The EY backup withholding calculator is applied to amounts paid to payees without TINs on file.

## Why does this matter to a TPSO?



User experience concerns, resulting in a potential loss of users and revenue

Systems updates needed for proper backup withholding and accurate Form 1099-K reporting



Increased TIN solicitations, TIN mismatches B Notices and penalty notices, requiring increased effort and attention from a TPSO

Enhanced seller onboarding and communications throughout the entire relationship



Risk of potential penalties – Under IRC sections 6721 and 6722 a penalty of \$290 per information return for each failure to file and furnish, maximum combined potential penalty of \$7,065,000, plus backup withholding exposure under IRC 3406 equal to 24% of reportable payments

- ▶ EY Customer Tax Operations and Reporting Services (CTORS) works with TPSOs, multinational organizations and financial organizations to meet their payee, investor and customer-related regulatory obligations through a married approach of end-to-end customer tax operations services and innovative technology applications.
- ▶ The CTORS team provides tax technical advice, process improvement, deployment of EY technology applications and/or broader outsourcing of managed services so that clients maintain compliance across global tax regimes.

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