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## About.com Tax Planning: U.S.

# Credit Card Payments to be Reported to the IRS Beginning 2011

Income from credit and debit card payments to be reported to IRS

By [William Perez](#), About.com Guide

Income received through credit and debit card transactions will be reported to the Internal Revenue Service starting in the year 2011.

Banks and merchant services will report annual gross payments processed by credit or debit cards to the IRS and to merchants. There's no word yet on the format these information reports will take. I suspect the reports will likely resemble the 1099 forms that report certain types of income. The law does not take effect until January 1, 2011, so there will be plenty of time for payment processors and business owners to prepare for this new development.

### Details of Credit Card and Merchant Payment Reporting

Banks and other payment settlement services will need to report gross annual receipts for each merchant. The income reporting will apply to "any transaction in which a payment card is accepted as payment" (new [Internal Revenue Code section 6050W](#)<sup>1</sup>(c)(2)). Thus, banks and other financial service providers will be reporting the total, gross amount of credit card and debit card payments for the year for each merchant.

### Exception for *De Minimis* Payments

No information report will be required if

- a merchant's total payment transactions for the year does not exceed \$20,000, and
- the total number of transactions does not exceed 200.

### Planning Ahead for Credit Card Reporting

Small businesses will want to review their bookkeeping and accounting practices. Once card payment reporting begins, business owners will need to reconcile the information reports submitted by the banks to their own books. Any discrepancies in reporting will need to be addressed so that accurate tax returns can be filed with the IRS. Further details regarding credit card and merchant account reporting are outlined in proposed regulations issued by the Internal Revenue Service ([REG-139255-08](#)<sup>2</sup>). Among other issues, the IRS details who is responsible for reporting, how gross amounts are calculated, and that merchant payment firms can be required to withhold funds for [backup withholding](#)<sup>3</sup>. The IRS has also released a draft of the new [Form 1099-K](#)<sup>4</sup>. Business owners and accountants should review this new form to familiarize themselves with the format.

One bookkeeping issue is becoming clear. The new law requires banks to report gross receipts. However, merchants often have chargebacks, issue refunds, or have debit card transactions where the customer receives cash back. Under the proposed regulations, banks and other payment transaction services will be reporting only gross monthly and annual payments. Fees, chargebacks, refunds and other items will not be netted against these gross amounts for IRS reporting purposes. Accordingly, businesses should have thorough accounting procedures to keep track of these items separately. In other words, if you are accustomed to recording only a net deposit from a merchant account, it would be wise to separate those net amounts into

gross receipts and the associated fees and refunds. That way your internal financial reports can be more easily reconciled to this new Form 1099-K.

### Payment Card Reporting Requires Merchant Identification

Since financial institutions will need to report credit and debit card receipts to the IRS, merchants will need to provide their payment processor with the full legal name of the business, their address, and taxpayer identification number. For most businesses, this will be their Employer Identification Number (EIN). As such, payment processors will likely request businesses to provide them with a [Form W-9](#)<sup>5</sup> to obtain this information.

### Possible Backup Withholding Issues

Merchants who fail to provide their taxpayer identification number could become subject to [backup withholding](#)<sup>6</sup> at a rate of 28% on their payments. To prevent backup withholding, merchants should provide their card payment services provider with the name, address, and EIN for the business.

Another concern is that credit card transactions could become subject to backup withholding or garnishment if a business becomes delinquent on their tax payments. Under the proposed regulations, the IRS made it clear that backup withholding would occur on gross card payments. This could leave a business in severe financial difficulties. Business owners who are struggling with tax debts should work with their tax professional to develop a repayment strategy that prevents any withholding on their card payments.

Sources:

- Section 3091 of Housing Assistance Tax Act of 2008 (H.R. 3221)
- [Summary of the tax provisions in H.R. 3221 from the Ways and Means Committee](#)<sup>7</sup> [pdf]
- [CCH Tax Briefing on the Housing Assistance Tax Act](#)<sup>8</sup> [pdf]
- [Information Reporting for Payments Made in Settlement of Payment Card and Third Party Network Transactions](#)<sup>9</sup> (REG-139255-08) (pdf, 48 pages)

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<http://taxes.about.com/od/businessstaxes/qt/cardreporting.htm>

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1. [http://www.law.cornell.edu/uscode/26/usc\\_sec\\_26\\_00006050---W000-.html](http://www.law.cornell.edu/uscode/26/usc_sec_26_00006050---W000-.html)
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