

Cryptocurrency: Diving into Digital Currency Taxation

March 2022 Article

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Due to a change promulgated by the American Rescue Plan of 2021, small businesses that are utilizing digital payment services such as PayPal, Venmo, Cash App, etc. will notice a change. Any third-party settlement provider accepting credit cards on behalf of the business and putting money into the business' bank account will have to be reported to the IRS.

If payments received from digital payment services were for goods and services that were sold to customers, it was previously up to you to make sure you were reporting that income on your tax return. But now, beginning in 2022, if you receive more than \$600 in total in the year – regardless of how many customers are paying – your payment service is required to report that amount to the IRS.

In full disclosure, those amounts should have already been reported as income anyway. But in reality, most small business owners just forget. Never fear, because now the digital payment service companies have the burden to submit the required information to the IRS (and they'll send you a 1099-K) for your tax return.

The new tax rule is separate from a proposed IRS reporting requirement that originally would have handed over transaction data on accounts with more than \$600 aggregate inflow and outflow. That proposal, originally part of President Biden's Build Back Better plan, was raised to a \$10,000 threshold after much pushback, and has not yet been acted on by Congress.

Whether you are selling products or services on Amazon, Etsy, eBay, even technically at craft shows and face-to-face, you can now expect to receive a 1099-K form sometime around January 31, 2023 from the payment services that you're using of the revenue they reported on your behalf to the IRS for the purchases of goods and services made in 2022.

Keen readers will notice that the new laws only affect goods and services. How do the services keep track of payments from friends or family members? Great question, and actually most digital payment services had these in place prior to January 1, 2022. A lot of digital payment services now provide you with options regarding the details of your payment. It often boils down to two questions: 1) Is this a payment between family members/friends? or 2) Is this a payment for goods and/or services? If the person sending the payment's answer to the first question is "Yes", then nothing further needs done. However, if the payment is for goods and/or services, the response will be noted to the digital payment service company and the receiving entity will receive the appropriate tax forms.

Some services are taking an even larger step towards compiling information related to their customers. Via its official blog, PayPal recently announced that "“You may notice that in the coming months we will ask you for your tax information, like a social security number or tax ID, if you haven't provided it to us already, in order to continue using your account to accept payments for the sale of goods and services transactions and to ensure there aren't any issues when these changes take effect in 2022. This helps us meet our

obligations to the IRS and ensures that you will be able to continue using your account and access PayPal and Venmo features and services”.

Taxpayers should also recognize that there may be some overlap. For example, if you're an independent contractor and you receive more than \$600 via a payment service then you'll likely get both a 1099-MISC from that company and a 1099-K from the payment service. In this situation you'd use the amount on the 1099-MISC and, assuming there are no other amounts from the payment service, you'd disregard the 1099-K.

Now, what will the IRS do with this information? According to the IRS, the data collected will be used for “taxpayer education and outreach products and services” as well as “new examination and collection approaches”. In more simple terms, the IRS is going to use this new tactic to keep businesses honest with regards to the payments that they receive

This is just a very small example of how the tax laws are set to change for 2022 and beyond. There are numerous other important laws that businesses should be aware of such as the usual updates to individual income tax rates and other aspects of the United States tax code to utilize! Please contact the professionals at The Center at (618) 997-3436 for more information.