

## **Important Changes to Tax Laws**

### **How to Report Your Credit Card Earnings to the IRS**

By Jeannette Perez

If you are a business owner who accepts credit cards, this is important information that you should be aware of. On August 16, 2010, new requirements were added to the Internal Revenue Code as part of the Housing and Economic Recovery Act of 2008 which requires that credit card payment processors report merchant payment card transaction data annually to the IRS (and to the merchant). In the past, merchants were able to place the processing account under a different person (for example, parent opens a business, but places the processing account under their child's name to avoid reporting tax on processing) but under the new provisions, it will also be required for the processing account to belong to the legal business owner. Both of these new laws will become effective for sales made on or after January 1, 2011.

Each payment processor will now be responsible for reporting the gross amount of reportable payment card transactions (including debit, credit, prepaid, and ecommerce transactions). In addition, it will also be required for the processor to supply the correct legal business name, legal address, and Taxpayer Identification Number (for most businesses, this will be their Social Security Number) to the IRS. Beginning in 2012, card processors will be required to report all 2011 gross monthly and annual payment card transaction data to the IRS (excluding adjustments for credits, returns, chargebacks, fees or discounts). These exclusions could cause a potential discrepancy when making the final report, therefore it is best to keep thorough accounting procedures throughout the year to keep track of these items separately. This will make it easier to report information accurately into the new Form 1099-k, which payment processors are required to file for each business. They are also required to supply the merchant with a copy of their 1099-k form by January 21, 2012. It is recommended that business owners and accountants review this new form to familiarize themselves with the altered format.

According to the withholding rules included in the IRS Mandate, if there is a discrepancy between a merchant's tax identification number and/or legal name on the file sent to the IRS, compared against the IRS records, the processor will have to withhold 28% of the merchant's reportable payment card transactions until the discrepancy is resolved. For example, if a merchant processes \$10,000 their processor will hold back \$2,800 of that sum until the tax id number and legal name on file with the IRS match. To prevent backup withholding, merchants must provide their card payment services provider with the correct legal business name, address, and employer identification/tax identification/social security number for the business.

Keep in mind that the new law creates an exception from information reporting if the gross value of credit card payment transactions does not exceed \$20,000 for the calendar year or the total number of these transactions does not exceed 200. Merchants should contact their tax advisors or accountants for further information about these new regulations and requirements.

For more information on how to report your credit card earnings to the IRS visit our website at [www.vipccs.com/resources](http://www.vipccs.com/resources)

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