



TaxNewsFlash

United States



No. 2022-060
March 1, 2022

KPMG report: Form 1099-K and section 6050W reporting updates

The de minimis threshold for section 6050W reporting on Form 1099-K by third-party settlement organizations (TPSOs) was reduced substantially.

The updated instructions to Box 1a require TPSOs to report under section 6050W for any payment totals exceeding \$600, regardless of the number of transactions. Under the prior de minimis threshold, TPSOs were not required to report under section 6050W until the total payments made to a payee exceeded \$20,000 and the aggregate number of transactions for such payee exceeded 200. The new de minimis threshold applies to transactions made after December 31, 2021.

The change will require TPSOs to obtain U.S. tax identification numbers (TINs) from payees sooner than before and bring a significant number of transactions back into scope for Form 1099-K reporting.

Direct state reporting

In addition, a number of states require Form 1099-K direct reporting with the state despite being listed as “participating states” for Combined Federal/State Filing (CF/SF) program in Publication 1220—a consequence of the changes of threshold and filing requirements of each state. These states include Alabama, Connecticut, Delaware, Massachusetts, Montana, and North Carolina.

What’s more, the following states or jurisdictions are required to File Forms 1099-K directly to the state but are not listed in Publication 1220: Washington, D.C., Florida, Illinois, New York, Oregon, Tennessee, Vermont, and Virginia.

Backup withholding—update

Section 3406 of the Internal Revenue Code currently provides that backup withholding is imposed on the first dollar paid to payees who have failed to provide a TIN.

The “Build Back Better Act” (which was passed the House but not voted on by the Senate) proposes to amend the backup withholding provisions by adding a de minimis threshold for amounts reportable under Section 6050W. Under the proposed legislation, TPSOs would only be required to impose

backup withholding, for purposes of section 6050W, on payments of \$600 or more. In addition, transitional relief would be in place for calendar year 2022.

If the proposal were enacted, TPSOs would not be required to impose backup withholding during 2022 until the total payments made to a payee exceed \$600 and the aggregate number of transactions for such payee exceeds 200. For payments made after December 31, 2022, backup withholding would be imposed on payments of \$600 or more made to a payee who has not provided a TIN, without regard to the aggregate number of transactions conducted with the payee.

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