

August 25, 2022

## **Why The Internal Revenue Service Needs 87,000 Additional Agents**

As part of the \$1.9 trillion stimulus bill known as the American Rescue Plan the reporting threshold of \$20,000 earned through at least 200 transactions through online marketplaces and cash apps was reduced to the receipt of a total of \$600 or more within a calendar year. Yes, you the seller of goods or services to a seller through a service such as Venmo, PayPal or eBay will be issued a Form 1099-K from the e-commerce or digital payment platform.

The law, which went into effect this year, is widely seen as having the greatest impact on rank and file entrepreneurs who use platforms like Etsy and Airbnb, freelancers, people with side hustles and gig economy workers such as Uber drivers who get paid via a mobile payments app.

The IRS is concerned about income that goes unreported by cash-intensive businesses. By one estimate, the shadow economy totaled about \$2 trillion in 2017, or 11% of US total economic output. Assuming a 25% tax rate, that represents \$500 billion in lost tax revenue. There is also an estimate that money is becoming more digital and harder to track, and 96 million mobile phone owners at least 18 years of age (40% of mobile phone users) used mobile payment apps in 2019, according to the St. Louis branch of the Federal Reserve Bank.

The new law has prompted criticism that the Form 1099-Ks will not distinguish between taxable income such as payment for a photography session, which is taxable income and non-taxable transfers of money, such as reimbursing friends or a grandmother sending a grandchild a graduation gift. As such, taxpayers and the IRS may receive erroneous forms. Both correct and erroneous Form 1099-Ks will have to be reported on your income tax return which may result in additional tax or financial consequences.

The law is clear that money received as a gift or reimbursement of a share of a meal should not be reported on a 1099-K, said the Taxpayer Advocate Service in a March 8 blog post. *“But mistakes may happen.”* Our suggestion to avoid this problem is to use two old fashioned methods, use CASH or write a CHECK.

The rule also complicates the math a taxpayer may have to do when reselling an item. Selling an expensive personal item on Facebook Marketplace for less than what you paid means you have a loss. You cannot claim a deduction for selling personal property at a loss unless the IRS considers your sale to be part of a business and, if so, you can use the loss to offset other business income. Meanwhile, if you purchased a vintage brass table in 1985 for \$50 and sold it on eBay for \$1,200, the IRS wants you to report the \$1,150 profit on your federal return as a sale of an investment.

Under the new rule, “the government only sees the movement of money. People in the transaction have to PROVE it was not taxable” through records and receipts. If you have no records, it’s going to be imputed as income. “The government has effectively shifted the burden of proof to taxpayers and, in our opinion, will create more taxpayer audits in order to justify this new law. Hence, the need for 87,000 additional IRS agents under the Inflation Reduction Act of 2022.

Transactions made through Craigslist do not trigger the form because the online platform is an advertising service and does not process payments between buyers and sellers. Zelle, which also does not process or collect payment but instead simply transfers money between bank accounts, says the onus is on the taxpayer to figure out if the transaction is reportable to the IRS. *Financial Planning July/August 2022 p. 33.*

If you believe this new complexity could apply to you, we recommend you discuss with Melissa the recordkeeping requirements you will probably need to implement.

### **IRS Interest Rates Increase**

The interest rates the Internal Revenue Service uses will rise for the quarter beginning October 1.

The rates will be:

- 6% for Overpayments
- 6% for Underpayments
- 3.5% for the portion of a corporate overpayment exceeding \$10,000

The rates are determined quarterly.

As always, if you have any questions about these or any other matters, do not hesitate to call us.