

Bank and online payment network reporting requirements in the 2008 Housing Act

Dear Client,

America's small businesses are evading billions of dollars in tax through unreported credit card transactions, or at least Congress seems to think so. To collect some of this lost revenue, Congress included a provision in the recently enacted "Housing Assistance Tax Act of 2008" (the 2008 Housing Act) which will require credit card issuers and electronic payment systems like PayPal to report sales data to the IRS. The new measure, which is intended to help defray the cost of the housing bailout, is expected to raise nearly \$10 billion in revenue over 10 years by increasing tax compliance and encouraging merchants to accurately report their income.

Specifically, the new law requires credit card companies and electronic payment processors, such as PayPal, to file aggregate transaction reports with the IRS listing their total annual payments to individual merchants who receive more than \$10,000 and conduct more than 200 transactions each year. The report will be on a 1099 form which the payment processor will file with the IRS and send to the merchant.

Essentially, the new law gives the IRS a way to check what a credit card company or electronic payment system is actually paying a small business compared to what the business is reporting on its tax returns. Needless to say, any significant discrepancy will likely draw the IRS's attention.

The new law doesn't take effect right away, though. Mandatory reporting won't go into effect until 2011, giving the banks and merchants time to gear up for these new requirements.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call.