

You Made \$700 From an Online Side Hustle. Now the IRS Will Know. A new tax law means online platforms will have to file a 1099-K for people earning more than \$600

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FULL TEXT

Now that your 2021 taxes are done—or at least under way—it's time to focus on a key tax change for 2022 affecting millions of Americans making money through platforms like eBay, Etsy, Airbnb, Venmo and Uber. This change, which is beginning to ripple through e-commerce, tightens the tax reporting on income earned by people selling goods and services through online platforms. Starting this year, the platforms must send a Form 1099-K to the Internal Revenue Service reporting an individual's total revenue if platform earnings top \$600. Now, many more sellers, resellers and gig workers than in the past will have their platform earnings reported to the IRS. The upshot: They may have to pay taxes they haven't been paying, or else keep complex records showing why they don't need to.

Under prior law, platforms only had to send 1099-K forms if a vendor earned more than \$20,000 and had over 200 transactions. The new bar is so low that opponents are trying to get it changed before the platforms send out a blizzard of confusing tax forms next January.

Here's what's going on. Last year, Congress quietly lowered the 1099-K threshold as part of the American Rescue Plan Act. The goal was to boost tax compliance in an area notorious for lacking it—income the IRS doesn't know about.

According to the agency's research, tax compliance is highest when employers, financial institutions and others tell the IRS about payments to individuals. These are reported on forms like W-2 wage statements or an array of 1099 forms for other types of income.

Compliance suffers when there isn't such reporting. The IRS's most recent tax-gap study found that of \$245 billion annually of misreported individual income taxes that are owed but not paid, 45% involved income without 1099s or similar reporting. Only 4% of the gap came from wage income subject to reporting and withholding.

Platforms like eBay, Airbnb, et al. have had to send 1099-K forms to their sellers for years. But the prior threshold of 200 transactions and \$20,000 of revenue left room for significant tax dodging. If an owner of a short-term rental earned \$30,000 from 25 rentals in a year, the rental platform didn't have to send a 1099-K form because the owner had 200 or fewer transactions—even though revenue topped \$20,000.

Miguel Centeno, a principal at Shared Economy Tax, a tax-prep and advisory firm in Austin, Texas, serving more than 400 short-term rental operators, says most of his clients want to comply with the law.

But he well remembers one who didn't. "When he found out his rental income wasn't going to be reported on a 1099-K, he asked us to leave it off his tax return," says Mr. Centeno. "When we said we couldn't, he immediately quit being a client."

The new \$600 threshold will likely affect many gig workers who are independent contractors and haven't been reporting income, so paying taxes on that income could be costly. It could also pressure companies hiring them to raise pay or expand benefits in a tight labor market .

The tax issues are different for many sellers on eBay and similar platforms, especially "casual" resellers cleaning

out closets and attics. These vendors may not owe tax at all if they're selling items for less than they paid—or, when it comes to items inherited from Grandma, less than the item's value on the date of death. They also won't have to submit a form to the IRS detailing the purchase and selling prices of items, at least for now.

Still, fear of becoming entangled with the IRS is prompting some sellers to back off.

John Biscuti, 36, is a New York-based guitarist who works in a wedding cover band in addition to his day job at a tech firm. He enjoys buying, trying out, and then selling vintage guitars for a small profit or loss on Reverb, a platform for musical instruments and gear. Now, he's not selling at all.

"I want to avoid tax hassles, and so do a lot of people I know," says Mr. Biscuti. "If I sell, I'll use something like Craigslist, but that means a far smaller market." Craigslist doesn't issue 1099-Ks because it doesn't transfer payments between buyers and sellers.

Alarmed by the \$600 threshold's effects on e-commerce, some members of Congress are hoping to change the law for 2022. Proposals include repealing current law and restoring prior thresholds, or raising the 1099-K bar to \$5,000.

Nina Olson is one prominent tax specialist supporting an increase in the threshold, perhaps to \$5,000. Ms. Olson, the longtime National Taxpayer Advocate at the IRS, now heads the Center for Taxpayer Rights.

She points out that the \$600 threshold for 1099-K forms, which also applies to two other 1099 forms received by self-employed workers, derives from a 1950s provision that wasn't adjusted for inflation. If it had been, these thresholds would now be about \$6,000, and she hopes Congress will raise them for all three forms.

Meanwhile, platforms are changing systems to comply with the \$600 threshold. Venmo, the payments app, asks senders of funds whether the payment is to "friends and family," as for a share of a restaurant bill, or for "goods and services."

Only payments for goods and services receive purchase protection, and recipients of more than \$600 in this category won't receive their payments until they provide Social Security numbers or other tax IDs.

As platforms adjust, sellers, resellers and gig workers using them need to check the new law's effects as well.

There's no guarantee it will be loosened.

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