

Financial, Legal & Tax Advisory

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Digital Payment Services: New Reporting Threshold

Since 2021, the reporting threshold for third-party payments has been lowered and raised several times. For 2026, the threshold is more advantageous to the taxpayers. If the number of transactions and their amounts exceed the threshold, any third-party settlement provider that accepts credit card payments on behalf of the business and deposits funds into the business's bank account must be reported to the IRS. If payments received from digital payment services were for goods or services sold to customers, that income is taxable to the person receiving the payments. Oftentimes, they may not receive any type of form showing that income.

As it has become very common for sellers and consumers to use digital payment services, the reporting threshold that makes the most sense has been a hot topic. The American Rescue Plan Act of 2021 created a threshold of \$600, regardless of the number of transactions, to issue a Form 1099-K to taxpayers. This greatly reduced the threshold that was in place of \$20,000 and 200 transactions. Due to this, there were a lot of pushbacks from the reporting companies, such as PayPal, Venmo, Etsy, Etc. In the following years, there were several temporary thresholds to help with the transition.

Now the new tax law retroactively restored the original threshold of \$20,000 and 200 transactions for 2026 and moving forward. Only those exceeding the \$20,000 and 200 transaction thresholds will receive a 1099-K. Smaller projects or occasional payments below this threshold will not trigger the form, though all income remains taxable. Keen readers will notice that the new laws only affect goods and services.

How do the services keep track of payments from friends or family members? Great question, and actually, most digital payment services had these in place before reporting thresholds. A lot of digital payment services now provide you with options regarding the details of your payment. It often boils down to two questions: 1) Is this a payment between family members/friends? or 2) Is this a payment for goods and/or services? If the person sending the payment's answer to the first question is "Yes", then nothing further needs to be done.

However, if the payment is for goods and/or services, the response will be noted to the digital payment service company, and the receiving entity will receive the appropriate tax forms. Some services are taking an even larger step towards compiling information related to their customers. You may notice that most of these third-party networks ask you for your tax information, like a Social Security number or tax ID, to continue using your account to accept/send payments.

This is to ensure that they have the proper information required in the case that you do exceed the thresholds at hand. This is just a very small example of how the tax laws have been changed for 2026 and beyond. There are numerous other important laws that businesses should be aware of, such as the usual updates to individual income tax rates and other aspects of the United States tax code to utilize! Please contact the professionals at The Center at (618) 997-3436 for more information.

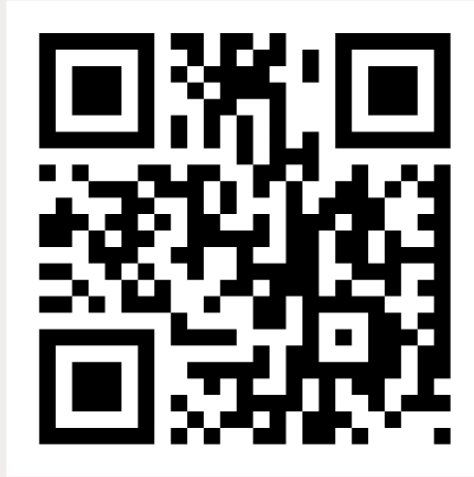
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