

Global IRW Newsbrief

Information reporting and withholding (IRW)

July 10, 2012

IRS releases 2012 Form 1099-K for Payment Card and Third Party Network Transactions

Background

Section 6050W of the Internal Revenue Code and the regulations thereunder require merchant acquiring entities and third-party settlement organizations (referred to collectively as payment settlement entities (PSEs)) to report payments made in settlement of payment card (i.e., credit, debit, etc.) and third-party network transactions. In general, PSEs must report the gross amount of reportable payment transactions, as well as the name, address, and taxpayer identification number (TIN) of the payee to the IRS on Form 1099-K, *Payment Card and Third Party Network Transactions*, for calendar years beginning January 1, 2011.

Modified 2012 Form 1099-K Reporting

The IRS on June 28 released the [2012 Form 1099-K](#), which includes several modifications from the 2011 version. While the IRS has not yet issued instructions for the 2012 form, some of the obvious modifications are as follows:

- The title of the 2012 form has been changed from "merchant card" to "payment card." Box 1 also reflects this change. This revision reflects the wording used in section 6050W.
- The 2012 Form 1099-K contains two boxes that were not on the 2011 form. First, the IRS has added an unnumbered box that filers must check to indicate whether the reported payments were made via (i) payment card, or



(ii) third-party network. Second, Box 3, which was reserved on the prior form, is titled "*Number of purchase transactions (optional)*" and gives the filer the option to report the number of transactions that relate to the gross amount of the reportable payments reported in Box 1. The number of transactions excludes refund transactions.

PwC Observation: *While it is optional to report the number of purchase transactions for reportable payments in 2012, it is likely to be a required element on the 2013 Form 1099-K. Organizations that do not currently capture this data for a full calendar year may need to modify their existing policies and procedures.*

- Filers are encouraged to report the appropriate merchant category code (MCC) in Box 2. A MCC is a uniform four-digit number used by some in the card payment industry to classify payees. Third-party settlement organizations currently are not required to complete Box 2 because these types of PSEs generally do not use this coding. PSEs that file 2012 Forms 1099-K reporting payment card transactions retain the option to report the MCC associated with the payees. However, it is possible that this information will be required on the 2013 Form 1099-K.

PwC Observation: *Historically the IRS has used Box 4 to report the amount of backup withholding tax applied to the reported payment. Box 4 continues to be reserved on the 2012 version of Form 1099-K because backup withholding does not apply to these payments in 2011 or 2012. Box 4 will go into effect for reportable transactions occurring in 2013 unless an additional extension to backup withholding is granted.*

For more information, please contact:

Dominick Dell'Imperio (646) 471-2386 dominick.dellimperio@us.pwc.com

Iris Goldman (646) 471-3992 iris.goldman@us.pwc.com

Aureon Herron-Hinds (646) 471-3915 aureon.herron-hinds@us.pwc.com

Candace Ewell (202) 312-7694 candace.b.ewell@us.pwc.com

Megan Marlin (202) 346-5144 megan.e.marlin@us.pwc.com

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