



MEMORANDUM

To: Reporters and Editors
From: Dan Virkstis for Senate Finance Committee Chairman Max Baucus (D-Mont)
Jill Gerber for Senate Finance Committee Ranking Republican Chuck Grassley (R-Iowa)
Re: Senate Finance Committee Bipartisan Staff Discussion Draft of Bush Administration proposal for information reporting on electronic payment mechanism reimbursements

Senate Finance Committee staff today released a bipartisan discussion draft of the President's proposal to require information reporting by banks and other entities on reimbursements to merchants that accept electronic forms of payment, including credit and debit cards. The Finance Committee intends to use public comment to understand more about how payment reporting may affect the tax gap – the \$345 billion in Federal taxes legally owed but uncollected each year – as well as to determine whether increased reporting requirements would unfairly burden merchant businesses or banks.

The staff discussion draft deals with information reporting on electronic payment mechanism reimbursements made to participating merchants. Under the terms of the proposal, banks and certain other entities enrolling or accepting merchants that participate in the use of electronic payment mechanisms will provide an information return to the Secretary and to the merchant. For purposes of the draft, the term "participating merchant" means any taxpayer that is party to a continuing agreement to use an electronic payment mechanism as payment for goods or services in connection with a trade or business. For purposes of the draft, the term "electronic payment mechanism" means any card or account (e.g., a credit card, debit card, or other electronic payment) sponsored or issued by an electronic payment organization, which, upon presentation to a participating merchant, represents an agreement to pay the participating merchant through the electronic payment organization.

--more--

It is the intent of the proposal to address concerns regarding the extent of gross receipts that are misreported and underreported. Internal Revenue Service (IRS) research indicates that underreported income accounts for approximately 80% of the annual \$345 billion tax gap. IRS research demonstrates that amounts subject to little or no information reporting are reported accurately only 46% of the time. In comparison, amounts subject to substantial information reporting are reported accurately over 95% of the time.

Information reporting on payment card reimbursements has been recommended by the Administration, and singled out by Treasury and IRS officials as an effective tool to increase voluntary compliance. The Government Accountability Office has identified information reporting as a “particularly powerful tool” to reduce the tax gap. The National Taxpayer Advocate has long advocated expanded information reporting to reduce the tax gap. The IRS Oversight Board recommends improved information reporting to address the tax gap. The draft proposal was developed on a bipartisan basis taking into consideration comments from government and private stakeholders interested in the proposal.

Staff encourages public comments including, but not limited to, remarks addressing a) the types of electronic payment mechanisms covered; b) whether the proposal accurately identifies the party responsible for issuing the information report; c) whether all merchants should be included within the scope of the proposal; d) whether a *de minimis* threshold should be applied to information return requirements; e) whether gross or net amounts should be reported; f) how back-up withholding rules should be applied; and g) the effective date of the proposal.

In addition to the draft proposal, staff also released a technical explanation that should be used as a reference for banks and merchants seeking to understand the proposal fully for business purposes.

Copies of the bipartisan staff discussion draft and the technical explanation of the President’s proposal will be available in 219 Dirksen Senate Office Building and on the Finance Committee website ([click here](#)). Comments should be submitted no later than April 30, 2008. Public comment can be submitted by email to epaymentreporting_comments@finance-dem.senate.gov or in writing to Russ Sullivan, Democratic Staff Director, and Mark Prater, Republican Deputy Staff Director and Chief Tax Counsel, at the Senate Finance Committee, 219 Dirksen Senate Office Building, Washington, DC 20510.

###