

2012

Instructions for Form 1099-K



Department of the Treasury
Internal Revenue Service

Payment Card and Third Party Network Transactions

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Truncating payee's identification number on paper payee statements. Notice 2011-38 allows filers of this form to truncate a payee's identification number (social security number (SSN), individual taxpayer identification number (ITIN), or adoption taxpayer identification number (ATIN)) on paper payee statements for tax years 2011 and 2012. **Do not** truncate an employer identification number (EIN) used by the payee. See part M in the 2012 General Instructions for Certain Information Returns.

Type of transactions. We added a box for you to indicate the type of transactions you are reporting, either payment card or third party network transactions.

Box 3, Number of purchase transactions. Providing this information for tax year 2012 is optional.

Reminders

General Instructions. In addition to these specific instructions, you should also use the 2012 General Instructions for Certain Information Returns. Those general instructions include information about the following topics.

- Backup withholding.
- Electronic reporting requirements.
- Penalties.
- Who must file (nominee/middleman).
- When and where to file.
- Taxpayer identification numbers.
- Statements to recipients.
- Corrected and void returns.
- Other general topics.

You can get the general instructions at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Frequently asked questions. To find frequently asked questions (FAQs) about Form 1099-K reporting, go to IRS.gov and enter "new payment card reporting" in the search box.

How to get the latest information. If there are changes to the 2012 tax laws that affect this form, you can find them at www.irs.gov/form1099k.

Specific Instructions

A payment settlement entity (PSE) must file Form 1099-K, Payment Card and Third Party Network Transactions, for payments made in settlement of reportable payment transactions for each calendar year. A PSE makes a payment in settlement of a reportable payment transaction, that is, any payment card or third party network transaction, if the PSE submits the instruction to transfer funds to the account of the

participating payee to settle the reportable payment transaction.

A PSE is a domestic or foreign entity that is a merchant acquiring entity, that is, a bank or other organization that has the contractual obligation to make payment to participating payees in settlement of payment card transactions; or a third party settlement organization (TPSO), that is, the central organization that has the contractual obligation to make payments to participating payees of third party network transactions.

Note. Automated clearing houses, healthcare networks, and accounts payable departments do not qualify as TPSOs and do not report under section 6050W.

A participating payee is any person, including any governmental unit (and any agency or instrumentality of a governmental unit) who accepts a payment card, or any account number or other indicia associated with a payment card, as payment or accepts payment from a TPSO in settlement of a third party network transaction.

A payment card is any card, including any stored-value card (having prepaid value, including gift cards), issued according to an agreement or arrangement that provides for all of the following.

- One or more issuers of the cards.
- A network of persons unrelated to each other, and to the issuer, who agree to accept the cards as payment.
- Standards and mechanisms for settling the transactions between the merchant acquiring entities and the persons who agree to accept the cards as payment.

A third party payment network is any agreement or arrangement that provides for the following.

- The establishment of accounts with a central organization by a substantial number of providers of goods or services who are unrelated to the organization and who have agreed to settle transactions for the provision of the goods or services to purchasers according to the terms of the agreement or arrangement.
- Standards and mechanisms for settling the transactions.
- Guarantee of payment to the persons providing goods or services (participating payees) in settlement of transactions with purchasers pursuant to the agreement or arrangement.

A third party payment network does not include any agreement or arrangement that provides for the issuance of payment cards.

Unrelated means any person who is not related to another person within the meaning of section 267(b) using the rules of 267(c) and (e)(3), and 707(b)(1).

Exception for payments made by U.S. payers or middlemen to foreign payees after 2010. For payments under contractual obligations entered into after December 31, 2010, a PSE that is a person as described

in Regulations section 1.6049-5(c)(5) as a U.S. payer or U.S. middleman is not required to file Form 1099-K for payments to a participating payee with a foreign address as long as, prior to payment, the PSE has documentation on which the PSE may rely to treat the payment as made to a foreign person according to Regulations section 1.1441-1(e)(1)(ii) (substituting payer for the term withholding agent and without regard to the limitations to amounts subject to withholding requirements of chapter 3 of the Code and its regulations).

A PSE must file Form 1099-K for payments made outside the United States to an offshore account if any of the following apply:

- There is a U.S. residential or correspondence address associated with the participating payee;
- The PSE has standing instructions to direct the payment to a bank account maintained in the United States;
- The participating payee submits for payment in U.S. dollars; or
- The PSE knows or has reason to know that the participating payee is a U.S. person.

A PSE is not required to file Form 1099-K for payments made outside the United States to an offshore account in the circumstances described in the preceding paragraph if the PSE does not know that the payee is a U.S. person and the PSE obtains from the payee a Form W-8BEN, Beneficial Owner's Certificate of Foreign Status for U.S. Tax Withholding; or Form W-8ECI, Foreign Person's Claim of Income Effectively Connected with the Conduct of a Trade or Business in US; or documentary evidence establishing the payee's non-U.S. status; or a suitable substitute form as described in Notice 2011-71, available at www.irs.gov/irb/2011-37_IRB/ar08.html. The W-8 forms (or the suitable substitutes) must be collected by the PSE by the later of January 1, 2012, or 90 days after the date on which the PSE enters into the contractual obligations with participating payee. The W-8 forms (or suitable substitutes) may be relied upon only when the requirements of Regulations sections 1.1441-7(b)(5)(i)(A) or (B) and (ii) are satisfied. Documentary evidence may be relied upon only when the requirements of Regulations sections 1.1441-7(b)(7) and 1.1441-7(b)(8)(ii) and (iii) are satisfied.

A PSE does not have to file Form 1099-K for payments made outside the United States (within the meaning of Regulations section 1.6049-5(e)) to an offshore account (as defined in Regulations section 1.6049-5(c)(1)) of a participating payee with only a foreign address if the name of the participating payee indicates that it is a *per se* corporation under Regulations section 301.7701-2(b)(8)(i) and the PSE does not know or have reason to know that the participating payee is a U.S. person.

A PSE may apply the grace period rules under Regulations section 1.6049-5(d)(2)(ii) for payments to a participating payee with only a foreign address without regard to whether the amounts paid are described in Regulations section 1.1441-6(c)(2) or are reportable under Code sections 6042, 6045, 6049, or 6050N.

Exception for payments by U.S. payers to foreign payees prior to 2011. For payments under contractual obligations entered into before January 1, 2011, a PSE that is a U.S. payer or U.S. middleman is not required to file a Form 1099-K for a payment to a participating payee with a foreign address as long as the payer does not

know or have reason to know that the participating payee is a U.S. person.

A foreign address means any address that is not within the United States (the States and the District of Columbia).



A renewal of a contractual obligation will not result in a new contractual obligation unless there is a material modification to the contractual obligation.

Exception for payments made by non-U.S. payers or middlemen to foreign payees. A PSE that is not described as a U.S. payer or U.S. middleman in Regulations section 1.6049-5(c)(5) is not required to file a Form 1099-K for payment to a participating payee that does not have a U.S. address as long as the PSE does not know or have reason to know that the participating payee is a U.S. person. If the participating payee has any U.S. address, the PSE may treat the participating payee as a foreign person only if the PSE has documentation on which the PSE may rely to treat the payment as made to a foreign person according to Regulations section 1.1441-1(e)(1)(ii).

A PSE that is a non-U.S. payer that has reason to know but not actual knowledge that a participating payee is a U.S. person will not be required to file Form 1099-K if the PSE obtains from the payee a Form W-8 that satisfies the requirements of Regulations section 1.1441-7(b)(5)(i)(A) or (B) and (ii), or documentary evidence that satisfies the requirements of Regulations sections 1.1441-7(b)(7) and 1.1441-7(b)(8)(ii) and (iii).

A PSE may accept a substitute form, as described in Notice 2011-71, in lieu of Form W-8BEN so that a participating payee can certify its non-U.S. status. Documentary evidence, described in Regulations section 1.6049-5(c)(1), submitted to establish the identity of the payee and the status of that person as a foreign person remains valid until the earlier of the last day of the third calendar year following the year in which the documentary evidence is provided to the withholding agent or the day that a change in circumstances occurs that makes any information on the documentary evidence incorrect.

A U.S. address is any address that is within the United States (the States and the District of Columbia).

Non-reportable transactions. The following transactions are non-reportable under section 6050W.

- A withdrawal of funds at an automated teller machine (ATM) via payment card, or a cash advance or loan against the cardholder's account.
- A check issued in connection with a payment card that is accepted by a merchant or other payee.
- Any transaction in which a payment card is accepted as payment by a merchant or other payee who is related to the issuer of the payment card.

Conversion of amounts paid in foreign currency.

When a payment is made or received in a foreign currency, the U.S. dollar amount must be determined by converting the foreign currency into U.S. dollars on the date of transaction at the spot rate (as defined in Regulations section 1.988-1(d)(1)) or according to a reasonable spot rate convention, such as a month-end spot rate or a monthly average spot rate. The convention must be used consistently for all non-dollar amounts reported and from year to year. The convention cannot be changed without the consent of the Commissioner or his or her delegate.

Reporting under sections 6041, 6041A, and 6050W. Payments made by payment card or through a third party payment network after December 31, 2010, that otherwise would be reportable under sections 6041 (payments of \$600 or more) or 6041A(a) (payments of remuneration for services and certain direct sales) and 6050W are reported under section 6050W and not sections 6041 or 6041A. For purposes of determining whether payments are subject to reporting under section 6050W, rather than sections 6041 or 6041A, the *de minimis* threshold, discussed later under *Box 1*, is disregarded.

Who Must File

Every PSE, which in any calendar year makes one or more payments, or any party which submits instructions to transfer funds to the account of a participating merchant, in settlement of reportable payment transactions, must file an information return (Form 1099-K) with respect to each participating payee for that calendar year.

Multiple PSEs. If two or more persons qualify as PSEs for the same reportable transaction, the PSE that submits the instruction to transfer funds must file the return. However, the PSE obligated to file may designate another person to file the return, including the PSE not making payment, if the parties agree in writing. If the designated person fails to timely file the return, the party who makes payment is liable for any applicable penalties under sections 6721 and 6722.

Electronic payment facilitator. If a PSE contracts with an electronic payment facilitator (EPF) or other third party to make payments in settlement of reportable payment transactions on behalf of the PSE, the facilitator or other third party must file Form 1099-K in lieu of the PSE. The facilitator is not required to have any arrangement or agreement with the participating payee. Payments need not come from the facilitator's account. The facilitator need only submit instructions to transfer funds to the account of the participating payee. The PSE can file Form 1099-K by designation if the parties agree in writing; however, the designation does not relieve the facilitator from liability for any applicable penalties under sections 6721 and 6722 for failure to comply with the information reporting requirements.

See part O in the 2012 General Instructions for Certain Information Returns for more information on penalties.

Aggregated payees. If you receive payments from a PSE on behalf of one or more participating payees and you distribute such payments to one or more participating payees, you are:

- The participating payee with respect to the PSE who sent you the payment(s), and
- The PSE with respect to the participating payees to whom you distribute the payments.

For more information on nominee/middleman reporting, see part A in the 2012 General Instructions for Certain Information Returns.

Statements to Recipients

If you are required to file Form 1099-K, you must provide a statement to the recipient. For more information about the requirement to furnish a statement to each recipient, see part M in the 2012 General Instructions for Certain Information Returns.

Furnishing statements electronically. Statements may be furnished to recipients electronically in lieu of a paper format. See Regulations section 1.6050W-2(a) for further information.

Filer's name, address, telephone number, and federal identification number boxes

Enter your name, address (including street address, city, state, and ZIP code) and telephone number in the box in the upper left corner. The telephone number must allow a payee to reach a person knowledgeable about the payments reported on the form. Enter your federal identification number in the top box immediately to the right.

Filer check boxes

Check the first (top) box in the section immediately below the FILER'S name, street address, city, state, ZIP code, and telephone number box if you are a PSE. Check the second (bottom) box if you are an EPF or other third party.

If you are an EPF or other third party, enter the PSE's name and telephone number in the box above the account number box at the bottom left of the form. The telephone number must allow a payee to reach a person knowledgeable about the payments reported on the form.

Transactions reported check boxes

Check the first (top) box if you are reporting payment card transactions on this form. Check the second (bottom) box if you are reporting third party network transactions on this form.

If you are reporting payments to the same payee that include both payment card and third party network transactions, you must file a separate Form 1099-K reporting the gross amount from each type.

Account number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-K. Additionally, the IRS encourages you to designate an account number for all Forms 1099-K that you file. See part L in the 2012 General Instructions for Certain Information Returns.

Box 1. Gross payment card/third party network transactions

Enter in box 1 the gross amount of the total reportable payment card/third party network transactions for the calendar year. Gross amount means the total dollar amount of total reportable payment transactions for each participating payee without regard to any adjustments for credits, cash equivalents, discount amounts, fees, refunded amounts, or any other amounts. The dollar amount of each transaction is determined on the date of the transaction.

Exception for *de minimis* payments. A TPSO is required to report any information concerning third party network transactions of any participating payee only if for the calendar year:

- The gross amount of total reportable payment transactions exceeds \$20,000, **and**
- The total number of such transactions exceeds 200.

For examples of reportable payment transactions, including responsible filing parties, see Regulations section 1.6050W-1(e).

Box 2. Merchant category code

Enter the 4-digit merchant category code (MCC) used by the payment card industry to classify the payee for the payment card transactions reported on this Form 1099-K. If you use an industry classification system other than, or in addition to, MCCs, assign to each payee an MCC that most closely corresponds to the description of the payee's business.

Note. If you are a TPSO or other type of PSE that does not use MCCs to classify payees for your trade or business you should not complete this box.

If a payee has receipts classified under more than one MCC, you may either:

- File separate Forms 1099-K reporting the gross receipts for each MCC, or
- File a single Form 1099-K reporting total gross receipts and the MCC which corresponds to the largest portion of the total gross receipts.

Box 3. Number of transactions

Enter the number of purchase transactions (not including refund transactions) processed through the payment card/third party payer network. Reporting this information is optional. The PSE is not required to complete this box for 2012.

Box 4.

Reserved.

Boxes 5a through 5l.

Enter in the appropriate box the gross amount of the total reportable payment transactions for each month of the calendar year.

Boxes 6 through 8.

Reserved.