Business Owners Beware – New IRS Matching Program

Article Highlights:

- Form 1099-K
- IRS Matching 1099-K reported income to tax return reported income
- Letters from the IRS

Beginning in 2012, banks, credit card companies, and other third-party organizations that settle transactions were required to file informational returns with the IRS that reported a business's credit and debit card transactions and other electronic types of reportable income. The form used to file that information with the IRS is the 1099-K. If your business has credit/debit card transactions, then you, along with the IRS, have received this form in the past.

The information provided on the Form 1099-K allows the IRS to determine the business's gross income from credit and debit card sales and makes it easier to segregate credit/debit card sales from cash sales.

With Form 1099-K, the IRS is in the position to see if the credit card dollar figure reported on the tax return matches the bank's information return; the form will also allow them to see if a business's other sales from cash and check payments makes sense in the context of the firm's overall business.

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As expected, the IRS has developed a program to match reported income on the income tax returns filed by businesses to the income reported on the 1099-Ks. The IRS' analysis includes comparing the percentage of income a specific business reported as coming from credit/debit cards and cash sales, for example, to what the typical percentage is for other businesses in the same industry. If you receive a letter from the IRS related to the 1099-K, then the IRS's computer thinks you underreported your business income and the agency is requesting an explanation for the discrepancy. Don't procrastinate or ignore the letter; it only makes matters worse.

If you receive one of these letters, it may be appropriate for you to seek professional assistance with preparing a response. Please give this office a call.