

# Some small businesses see Zelle as a tax haven from the government's updated tax rule

Article

**The news:** Some gig workers and small business owners are reportedly using **Zelle** to dodge [a tax rule](#) that requires **Cash App**, **PayPal**, and **Venmo** to report users' business payments that

exceed \$600 in a calendar year to the **Internal Revenue Service (IRS)** and provide these users with a 1099-K tax form, per Bloomberg.

**Key context:** A Zelle spokesperson told Bloomberg that Zelle payments are not subject to the rule because it's a network that doesn't hold any funds. The spokesperson noted that small businesses use Zelle because it's attached to their bank accounts, which simplifies money management. They declined to comment on other reasons why some might use Zelle over other services.

- The tax rule in question **took effect** January 1, but won't affect users until the 2022 tax filing cycle, which takes place in 2023.
- Previously, 1099-K forms were only required for merchants with more than 200 transactions in a year exceeding \$20,000 in total value.

**Why it matters:** The rule was most likely put in place to help improve tax reporting. **An estimated \$144 billion in taxes for individuals and small businesses went unreported between 2014 and 2016**, according to IRS data cited by Bloomberg.

- Small businesses and gig workers have always been required to report business income, regardless of what channel it came through.
- But prior to the rule change, some may have used digital payment apps to try to minimize their tax liability.
- Ultimately, the updated tax rule can help improve payment traceability and simplify tax reporting for small businesses and gig workers.

**What this means for payment providers:** Zelle could see more small businesses transitioning over to its platform due to the perception that it could help users minimize their business tax burden. Conversely, Cash App, PayPal, and Venmo might experience a decline in business users and volume.

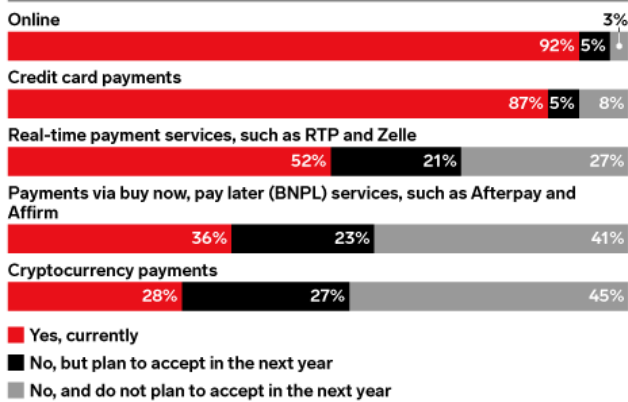
All of the providers in question have been increasing their efforts to attract small-business users to their platform, since this can help diversify their user base and drive higher transaction volume. For instance, **Venmo introduced business accounts** for small merchants last year, and has had **major success** with it so far: **1.5 million small businesses have opened business accounts with Venmo as of Q2 2022.**

**The big takeaway:** Tax reporting rules have not changed for small businesses and gig workers. The only change is that now those who have been using Cash App, PayPal, and Venmo may have an easier time consolidating and reporting payment information to the IRS for the 2022 tax year and beyond.

Down the road, if the government finds that too many businesses are using Zelle to evade tax responsibility, it may decide to extend the rule to include Zelle, or require the platform to share user information for auditing purposes, Steven Rosenthal, a senior fellow at the Urban-Brookings Tax Policy Center, told Bloomberg.

**Payment Methods Accepted by US Small Businesses According to US Small Business Executives, Jan 2022**

% of respondents



Source: Protocol and Morning Consult, "Small Business Survey 2022" conducted by Morning Consult; Insider Intelligence Calculations, Jan 5, 2022

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