JAN 10
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The IRS' updated tax rule could open new revenue opportunities for payment providers

Article

The news: Effective January 1, 2022, payment apps like **PayPal**, **Venmo**, and **Cash App** are required to **report users' business payments that exceed $600 in a calendar year** to the

Internal Revenue Service (IRS), per NBC News.

- Providers need to give business owners a 1099-K tax form that breaks down commercial income received through the app if it meets the $600 threshold.
- **1099-K forms were previously only required for merchants with more than 200 transactions in a year exceeding $20,000 in total value**. The updated rule won't affect users until the 2022 tax filing cycle, which takes place in 2023.
- Gift payments, transactions from selling personal items at a loss, and payments sent as reimbursements are excluded from the rule.

What this means: The updated rule won't affect payment apps from a profitability standpoint—it just makes them provide tax documentation for more business users.

- Business owners' tax liabilities remain unchanged: They've always had to report business income regardless of what channel it came through.
- It might be easier for merchants that use these apps to report that income now—primarily small businesses that fell short of the $20,000 1099-K threshold and may have had a harder time consolidating transactions themselves.

The opportunity: Players like PayPal and Cash App could use the new tax rule to their advantage by creating payment-adjacent tax services that help limit the friction some small businesses face during tax season—like **Stripe's** tax offering.

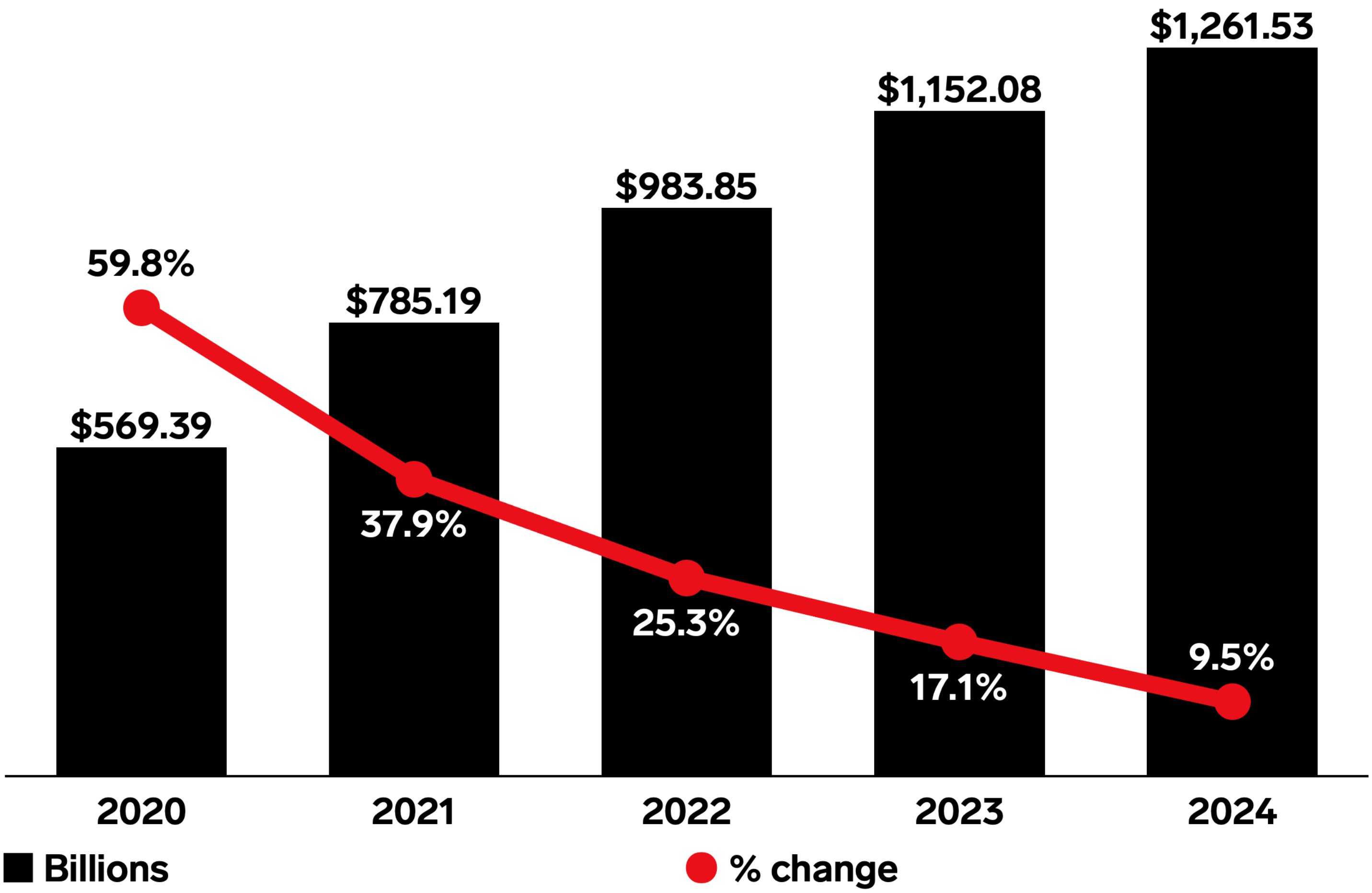
Block already offers a free tax filing service through Cash App, but it could expand the offering to include fee-based products. Such value-added services could help boost revenues for peer-to-peer (P2P) payment providers as they work to bring in business users.

The bigger picture: The new tax rule underscores one of the biggest advantages that governments see with digital payments: traceability. Unlike cash payments, digital transactions can easily be tracked—and, in turn, easily taxed. By updating digital payment tax rules, governments can mitigate tax evasion.

Related content: *Check out our "US Mobile Payments Forecast 2021" to learn how mobile payment providers are angling for merchant acquisitions in the P2P payments space.*

Peer-to-Peer Mobile Payments Transaction Value

US, 2020–2024



Note: a mobile P2P payment is a transfer of funds from one individual to another individual using a mobile device. Includes transfers on tablets; includes transactions made via mobile browser or applications developed by non-bank providers like Venmo, Cash App, Google Pay and Facebook Messenger and transactions made via mobile banking websites and applications developed by banks like Zelle; excludes both peer-to-peer cross-border transactions and peer-to-merchant transactions.
Source: eMarketer, March 2021
Methodology: Estimates are based on the analysis of the market presence of major mobile payment players; estimates from other research firms; and consumer smartphone, mobile payment adoption, and retail spending trends.

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