

Proposed Legislation to Alleviate Tax Reporting Burdens for Small Businesses and Casual Sellers That Conduct Online Sales

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There has been a recent development regarding tax reporting requirements that may soon affect small businesses engaged in online sales. On May 18, 2023, Senators Sherrod Brown (D-OH) and Bill Cassidy (R-LA) introduced legislation aimed at addressing the burdensome tax reporting thresholds currently in effect.

The Red Tape Reduction Act seeks to raise the threshold at which individuals receive Forms 1099-K for online sales. Presently, third-party payment platforms must report businesses' gross transaction volumes exceeding \$600 to the IRS—that change was supposed to take place beginning in 2022, but the IRS announced via Notice 2023-10 that 2022 would be considered a transition year. If there's no move from Congress, the \$600 threshold will apply to the 2023 tax year. Consequently, thousands of small businesses face increased administrative burdens.

The proposed legislation aims to elevate the reporting threshold from \$600 to \$10,000, resulting in less paperwork and administrative complexities for small businesses and casual sellers involved in online sales. Brown and Cassidy have expressed concerns about the adverse impact of the current reporting threshold on small businesses. Brown has emphasized that the existing threshold places undue pressure on small businesses and individuals selling products online, consuming valuable time and resources, and leading to frustration. Similarly, Senator Cassidy has highlighted the detrimental effects of the cap on small business owners and taxpayers, including taxpayers who use payment apps to pay their rent.

The bipartisan effort to pass the Red Tape Reduction Act reflects a growing consensus that the current reporting threshold of \$600 is burdensome and necessitates revision. Notably, the proposed legislation has garnered support from various quarters, including the Republican-led House Committee on Ways and Means, which opposes the current threshold due to its potential impact on a wide range of individuals, including small-scale sellers that use payment apps. The Chairman of the Committee, Jason Smith, noted that the current low threshold "goes after hairdressers and your neighbor's kid, not billionaires, and . . . create[s] a digital trail for IRS agents to monitor more Americans regardless of whether these individuals actually owe any taxes on the payments they received."

If this legislation is passed, it may affect your business operations and tax reporting requirements. It's important to stay informed about potential changes like this one that could affect your business. If you have questions about how this legislation or other changes might impact your business, please do not hesitate to contact Jonah Levinson (levinsonj@whiteandwilliams.com, 215.864.7194), or Kelly Erb (erbk@whiteandwilliams.com, 215.864.7186) or any member of the Tax and Estates Group.

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