

# IMPORTANT UPDATE FOR PAYPAL AND VENMO USERS: IRS ADJUSTS 1099-K REPORTING THRESHOLDS

The IRS has issued new guidance on its phased rollout of 1099-K reporting requirements. This impacts millions of users of platforms like PayPal, Venmo, Etsy, and eBay. These updates build on the IRS's December 2023 announcement, where it delayed the implementation of a \$600 reporting threshold due to concerns over taxpayer confusion and administrative burdens.

As we discussed in our December 2023 [post](#), the IRS had originally planned to drop the 1099-K reporting threshold from \$20,000 (and 200 transactions) to \$600, but after industry pushback and legislative discussions, it introduced a gradual transition to ease compliance. The latest update confirms the reporting thresholds leading up to 2026.

## Recap: What Happened in Late 2023?

In December 2023, we covered the IRS's decision to postpone the \$600 reporting threshold in response to widespread concerns that taxpayers would erroneously receive 1099-Ks for personal transactions. The IRS acknowledged that transactions such as splitting a dinner bill or selling personal items at a loss could trigger unnecessary tax forms, creating confusion.

At that time, the IRS signaled its intention to transition to a \$5,000 threshold for 2024, allowing time for further adjustments. The latest update now provides a clearer roadmap:

- **2024:** \$5,000 reporting threshold
- **2025:** \$2,500 reporting threshold
- **2026 and beyond:** \$600 reporting threshold

The gradual approach aims to ensure that small business owners and independent contractors have time to adjust. It also gives third-party payment platforms time to refine their compliance procedures. However, the phased implementation is not without controversy. Many e-commerce platforms and lawmakers continue to push for a permanent threshold increase to prevent confusion.

# Key Updates for 2024

## ***Lower Thresholds, Same Reporting Rules***

For tax year 2024 (filed in 2025), only business-related transactions that total \$5,000 or more will trigger a 1099-K form. While this is a significant reduction from the prior \$20,000/200 transaction threshold, the IRS has emphasized that:

- **Personal transactions remain exempt.** If you send money to a friend for dinner or receive a gift through Venmo, it should not be reported.
- **Business-related payments will be reported.** If you sell products or services and receive payments through PayPal, Venmo, or similar platforms, those payments may be subject to reporting once they exceed the \$5,000 threshold.

## ***No IRS Penalties for 2024 Non-Compliance by Platforms***

To ease the transition, the IRS has confirmed it will not impose penalties on third-party platforms that fail to comply with backup withholding requirements during 2024. This provides companies like PayPal, Venmo, and Etsy additional time to adjust their reporting systems.

## ***Future Thresholds: Plan Ahead***

By 2026, even casual sellers will be impacted. For example, if you sell a used couch for \$700 on Facebook Marketplace, you could receive a 1099-K—even if you sold at a loss. Selling personal items at a loss does not create taxable income. However, receiving a tax form could still create confusion and require additional documentation to correct.

## **Legislative Uncertainty and IRS Criticism**

The phased implementation of the 1099-K threshold has not been without controversy. While many taxpayers welcome the delay, some lawmakers and tax professionals believe the IRS has overstepped its authority by postponing the \$600 threshold beyond the timeline set by the American Rescue Plan Act of 2021.

- E-commerce platforms like eBay and Etsy continue to lobby Congress to raise the threshold permanently, arguing that the \$600 rule will lead to unnecessary tax forms for millions of casual sellers.
- Lawmakers from both parties have introduced bills proposing thresholds of \$5,000, \$10,000, or even \$20,000, but Congress has yet to pass a long-term fix.
- Political debates continue, with some lawmakers framing the delayed IRS rollout as a tax policy shift that could have major implications for future administrations.

Despite this uncertainty, taxpayers should prepare for the likelihood that the \$600 threshold will take effect in 2026 unless Congress acts.

## How This Affects You

### ***Business Transactions & Purchase Price Allocation Matter***

If you're a small business owner, freelancer, or independent contractor, the 1099-K will report your total payments received through payment apps. However, not all funds received may be taxable.

For example:

- If you earn \$6,000 providing graphic design services through PayPal, that entire amount will be reported to the IRS and subject to self-employment tax.
- However, if \$2,000 of that total was a personal gift from family, those funds should be flagged as personal transactions to avoid misclassification.

Properly labeling transactions as "personal" or "business" in your payment apps can prevent errors when 1099-Ks are issued.

### ***Preventing Incorrect 1099-K Filings***

If you receive a 1099-K in error (for instance, for personal transactions), you should:

- Request a corrected form from the issuing platform.
- Provide supporting documentation (e.g., receipts, bank statements) to clarify taxable vs. non-taxable transactions.

## What Should Taxpayers Do Now?

- **Keep detailed records of all transactions** to ensure proper tax reporting. Many payment platforms allow transaction labeling, which can help prevent issues later.
- **Review any 1099-K forms you receive** and dispute any misclassified transactions.
- Consult a tax professional if you are a small business owner, freelancer, or independent contractor, as the new thresholds could impact your tax liability.

As we highlighted in our December 2023 article, the IRS is steadily reducing the 1099-K reporting threshold, requiring online sellers, freelancers, and small businesses to be more proactive in managing their tax reporting obligations. While personal transactions remain exempt, it's essential to track income sources carefully to avoid potential IRS issues.

Meanwhile, Congress continues to debate long-term solutions, but taxpayers should prepare for the likelihood that the \$600 rule will take effect in 2026 unless legislative action is taken.

If you need guidance on tax compliance or reporting strategies, contact us, the [O'Neil Cannon Tax Team](#), for assistance.