

March 5, 2019

Chairwoman Toi Hutchinson
Senate Revenue Committee
121C Capitol Building
Springfield, IL 62706

RE: Opposed – SB 119 (1099-K Changes)

Dear Chairwoman Hutchinson:

On behalf of the Electronic Transactions Association (“ETA”), we appreciate the opportunity to share our thoughts regarding SB 119. **ETA opposes SB 119**, as currently written, because the bill’s goal to capture more tax data has significant unintended consequences which will affect consumers options and experience with payment processing services and ensure that compliance costs and challenges will be significant.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services, including financial institutions, transaction processors, payments networks, and others. ETA also has members that are engaged in online lending for commercial enterprises, primarily small businesses, either directly or in partnership with other lenders.

Overview of the Issue

Federal law requires third-party settlement organizations, defined under *Section 6050W* of the Internal Revenue Code, to report to the IRS information on merchants’ electronic transactions. The threshold for reporting is in excess of 200 transactions, in aggregate, and exceeds \$20,000 for each calendar year. Third-party settlement organizations provide detailed accounts of electronic transaction information to the IRS and supply a copy to the participating payee (i.e. merchant) using a Form 1099-K as required by the IRS. Information includes name, address, taxpayer identification number (TIN), and gross amount of payment transactions. The reporting requirement was developed to allow the IRS to capture more tax information.

This bill (SB 119) would reduce the 1099-K reporting threshold down from \$20,000 to \$600 and would create a significant compliance burden. One transaction (down from 200) could now require collection of a TIN, proper name and a physical address in order to issue a 1099-K form.

This type of dramatic reduction in the reporting threshold would require significant investment and operational changes to comply. To satisfy the current federal tax reporting and withholding requirements, payers are only required to solicit tax documentation (e.g. Forms W8/W9) to the extent that the federal reporting thresholds are met. To comply with a state level requirement, with reduced reporting thresholds, payment processors and many marketplace providers, would need to collect data that may not exist in their data warehouses (i.e. TIN, proper

name and address). This would also change the onboarding experience for many consumers who use these types of services and would require the upfront collection of TIN, legal name, and address. Additionally, for customers who already have accounts, companies would be required to collect tax documentation not currently on file at considerable expense to third-party settlement organizations. Certain products initially onboard with only an email address from third party platforms that allow a user to transact payment activity. A lower threshold instituted by this bill would prevent settlement of transactions in these situations.

Additionally, the change in reporting to \$600 would not capture the intended data Illinois would need. For example, a person with an account address in Wisconsin and a rental property address in Chicago would have the Form 1099-K issued to Wisconsin because the account holder's address is located in Wisconsin. Additionally, under Section 6050W, payers are required to report the gross amount, which is defined as the gross payment, without any adjustments for refunds, credits, fees, tax, or any other amount. Since payers are not allowed to adjust the gross amount paid, the federal statute results in tax reporting that does not actually report *taxable* income. Any changes to the reporting threshold may further distort the economic and tax realities of the income paid and may provide the Illinois Department of Revenue with information that is inconsistent with state tax laws related to income earned from property and other service transactions.

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Thank you for the opportunity to participate in the discussion on this important issue. ETA opposes SB 119, as currently written, because the bill's goal to capture more tax data has significant unintended consequences which will affect consumers options and experience with payment processing services and ensure that compliance costs and challenges will be significant. If you have any additional questions, you can contact me or ETA Senior Vice President, Scott Talbott at stalbott@electran.org.

Sincerely,



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Cc: Members of the Senate Revenue Committee
Senator Cristina Castro