

IRS Merchant Transaction Reporting

June 2010

Deliverables

- Beginning in January 2012, each merchant must receive a 1099K report of payment card transactions for the previous tax year.
 - Requirement applies to entities with the contractual obligation to pay the merchant.
 - Reporting must be done for each Tax ID.
 - Reports sent to merchant and IRS.
- For merchants who have not provided a valid Tax ID, the IRS may request backup withholding at a rate of 28%.
 - We have recently become aware that states may also require withholding.
 - CA requiring 7% withholding, NY may require reporting only
 - Federal law allows sharing of information between US and the states

Background

- Housing Assistance Tax Act of 2008:
 - Section 6050W of the tax code includes the new requirements.
 - Merchant Acquiring entities must report gross sales for each merchant:
 - Reporting entities encouraged to collect and verify Tax ID numbers.
 - Any merchant whose name/TIN does not match to IRS database is subject to withholding in 2012.
 - Eligible payment types are those which involve networks of a substantial number of unrelated merchants:
 - Excludes “closed loop” and much private label.
 - However, store cards used at non-corporate (non-related) stores are in scope.
 - The purpose is to encourage accurate tax filing.

TIN Validation

- Beginning in June 2009 IRS encouraged processors to validate TINs.
 - Where permitted, we have:
 - Created files with merchant name/TIN combination.
 - Excluded obvious errors (blanks, 9s, etc), about 22% of our files.
 - Access via IRS servers, sign-on, upload files, receive and store.
 - Results allowed us to design tools for fixing, add fields, plan capacity.
 - About 50% of MIDS across all platforms have non-matching names/TINs
 - Assumption: Many non-matches may be due to incorrect filing name.
 - We are adding IRS Filing Names as a new field.
 - For example, LLCs and sole proprietorships may require the name of the owner as the IRS filing name and their SSN for the tax ID.

TIN Updates

- Objective is to create a web-based tool which will allow merchants to:
 - Authenticate themselves.
 - Provide a valid TIN and attestation.
 - Update merchant files on all platforms.
- Requirements completed June to December 2009, development completed in May.
- Interactive voice response unit also available.
- Pilot for both tools scheduled for July.
- First Data call center personnel being trained, and capacity planning has taken place.

TIN Updates, cont'd

- In 2010:
 - First Data will develop plans with all channels to communicate with merchants who have invalid TINs.
 - Letters/Statement messages are the common methods.
 - The need for a valid TIN and impact of noncompliance should be explained.
 - First Data boarding tools changed to emphasize the need for accurate information.

TIN Updates, cont'd

- In 2010:
 - Merchants can be directed to website.
 - Communication plans will address branding, reporting entity involvement.
 - Several pieces of communication may be needed in 2010, each one more urgent.
 - First Data will prepare for inbound merchant inquiries.

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- Credit and debit card activity summaries for selected time period
- Detailed reports for drilling down into specific locations, transaction types, adjustments and more
- Standardized, Web-based reports that give you access to payment processing information
- Reporting that can be e-mailed or faxed wherever you need
- Dispute reporting to help you manage chargeback and retrieval expenses

Welcome

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ClientLine is the portal into the TIN correction web tool. A merchant does not need to be a ClientLine user.

The link you see on the right, is not in place today, but will be in place by the time merchants are directed to the site.

File Edit View Favorites Tools Help
Links Client Center Login CHS PROD CHSQA Customize Links EPAS e!links FDT Information Security Service Desk IRS e-services SilkCentral Clarity

CONTACT US

TAX INFORMATION UPDATE LOGIN

Enter the Communication ID that was sent to you: [.....] Submit

- ✓ If you have not been provided with a Communication ID by your merchant processor, you do not need to take action at this time.
- ✓ If your merchant processor requires updated tax information, you will be contacted.

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All users (ClientLine users and non-users) will be give a 10 digit Communication ID which will give them access to the web tool.

- Today is Tuesday, June 15, 2010

Welcome to the Tax Information Update Web Site

Background: To comply with recent changes to the Internal Revenue Code, all businesses that accept payment cards must provide an accurate taxpayer identification number (TIN) and the corresponding IRS filing name.

Purpose: Provide the TIN and filing name associated with the business on its Federal tax return.

What happens if you do not provide updated information? Beginning January 1, 2012, your merchant acquirer may be required to withhold income tax (currently 28%) by deducting it from the amount to be funded to your merchant account if your tax information is missing or does not match the IRS records.

Obtaining Confirmation:

After you have updated your TIN and filing name (in the following screen), it will take approximately 48 hours to validate the information you provided with the IRS.

The following options are available for you to obtain the results:

- 1) Provide your e-mail address and an e-mail message will be sent with the results of the validation; or
- 2) Provide your telephone number and a telephone message will be sent with the results of the validation; or
- 3) Log on to this web site after 48 hours and check the IRS Validation Status.

Click Next to get started

Next

Cancel

Today is Tuesday, June 15, 2010

Search Merchant

Enter the Communication ID that was sent to you:

Enter the last four digits of the phone number associated with your merchant location:

To help protect against unauthorized access, please enter the letters that appear below in the box. ?



Type the Letters

Today is Tuesday, June 15, 2010

Confirm Account

COMMUNICATION ID: ██████████

DOING BUSINESS AS (DBA) NAME: ██████████

DOING BUSINESS AS (DBA) ADDRESS: ██████████ S IA 50309 USA

LEGAL NAME: ██████████

Our records indicate that the tax information for this account is invalid. To update the tax information please confirm this is your account.

This is my Account

I don't recognize this information



Tax Information on File

LAST VALIDATION DATE: 2009-07-07 00:00:00.0

VALIDATION RESPONSE: **Our records show the following TAX ID and Filing Name do not match with the IRS records.**

TAX IDENTIFICATION NUMBER (TIN) USED FOR VALIDATION: *****0000

FILING NAME USED FOR VALIDATION: ████████████████████

To update your account:

- ✓ You will need your TAX ID and IRS FILING NAME.
- ✓ This information can be found on your Federal Income Tax Return.

Next

Back



Update Details

Enter the Filing Name EXACTLY as shown on income tax return:

Enter the Tax Identification Number (TIN):

Re-Enter the Tax Identification Number (TIN):

Is this a Social Security Number (SSN) or an Employer Identification Number (EIN)? SSN EIN

FOREIGN STATUS: Check here if you are a Non-Resident Alien operating a sole proprietorship OR your business is operating through a Foreign Entity

Next

Back



CERTIFICATION

Under penalties of perjury, I certify that:

1. The Taxpayer Identification Number and Filing Name entered are correct;
2. For an individual, I am a U.S. citizen or a U.S. resident alien, OR for an entity, it is a partnership, corporation or association created or organized under the laws of the United States, unless otherwise specified in the Foreign Status section; and
3. I am authorized to submit this information.

Enter Name:

Title:

NOTE: If you do not agree to the certification, the changes will not be applied.

Agree

Back



NOTIFICATION

How would you like to be notified of your update status? Email Phone Both No notification is needed

Please enter your Notification Email Address:

Update

Update my Account

Cancel

1

2

3

4

5

6

Today is Tuesday, June 15, 2010

IRS VALIDATION STATUS: IN PROCESS

We Have Received Your Request.

COMMUNICATION ID: ██████████
SUBMISSION DATE: Tue Jun 15 09:41:50 EDT 2010
SUBMITTED BY: ██████████
CURRENT STATUS: IN PROCESS

Notification will be provided via EMAIL.

If you or your company uses a mail filter please add TIII-NoReply@e-customer-service.com email address to your lists so that you may receive the notification.

Thank You

[Update More](#)

[Complete](#)



Reporting

- First Data needs additional clarification on reporting requirements.
 - However, we know enough to begin design for collection of data, report creation and distribution
- Design began late 2009.
- Development in 2010.
- First 1099s due in January 2012, for 2011 tax year.

Withholding

- Requirements to be addressed after complete commentary received from US Treasury.
- We may have state requirements as well.
- Design and Development to be completed in 2011.
- Likely process based on current backup withholding rules:
 - In 2012, reporting entity receives a B notice on CD/DVD from IRS of affected merchants.
 - For missing TINs, backup withholding must start immediately.
 - 30 day process to cure for incorrect TINs. If no cure, we must withhold and pay to the IRS 28% of daily settlement.
 - Merchant will only get back what was withheld after tax filing the following year.
 - Payments must be made to the IRS semi-weekly, or next day if over

Next Steps

- In the next few weeks, clients will be notified of the validation results:
 - Merchant communication plans will be developed.
 - Letters (or some other mechanism) will be used to advise merchants:
 - What the legal changes require.
 - Why they are being contacted.
 - What they need to do.
 - What happens if they do not provide the requested information.

FAQs

- Why will merchants be asked to provide an IRS filing name and number?
 - This is required by 2008 tax law changes. The intent is to encourage merchants to accurately report total sales.
- Does the law apply to all acquirers?
 - Yes, and as far as we know, everyone in the industry is planning compliance.
- Don't we have this information already?
 - Yes, but with nearly 50% non-matches, we have to assume that many merchants have either an incorrect TIN, are using a filing name different than the legal name we have on file, or both.

FAQs

- What happens if the merchant does not supply the requested data?
 - It is possible the IRS will mandate back-up tax withholding in 2012. The 28% must be withheld, and can only be returned to the merchant in the following year.
- Is the web tool the only way to update the information?
 - No, merchants can call First Data call centers, or use the IVR. Also, RMs will have access to the same tool to assist merchants.
- When will the letters be mailed to merchants with non-matching data?
 - That is being planned now. More information will be forthcoming in the next few weeks. Generally, it is advisable to have corrections done by end of 2010.

FAQs

- What about merchants with multiple outlets or franchises?
 - The merchants are going to be in the best position to understand which outlets are corporate owned (and which likely should have the same corporate TIN) and which are owned by franchisers or unrelated parties (and which likely should have a Tin different than a corporate location). RMs are encourage to ask their merchant contacts to sort this out. It is possible that the information we have on file, regarding the TIN, may not reflect the true corporate structure.

FAQs

- If our merchants receive 1099Ks for payments made to them, will they be required to file 1099Ks for payments they make to others?

- Maybe. Here is language from the IRS guidelines:

Special rules--(1) Aggregated payees. In any case where a person receives payments from a payment settlement entity (as defined in paragraph (a)(3) of this section) on behalf of one or more participating payees and distributes such payments to one or more participating payees (as defined in paragraph (a)(4) of this section), the person is treated as:

- (i) The participating payee with respect to the payment settlement entity; and
- (ii) The payment settlement entity with respect to the participating payees to whom the person distributes payments.

- We cannot give tax advice to such aggregators, but we can advise them to ask their tax professionals to look at section 6050W of the tax code and see how they may be affected.

FAQs

- Will merchants with foreign addresses receive the 1099K.
 - According to IRS regulations, merchants with a foreign address are not required to receive the 1099K. A foreign address is anything outside the fifty states and the District of Columbia.
 - Language from the IRS regs is provided below:

The proposed regulations provide that a payment settlement entity that is a person described as a U.S. payor or U.S. middleman in §1.6049-5(c)(5) is not required to report payments to participating payees with a foreign address as long as, prior to payment, the payee has provided the payment settlement entity with documentation upon which the payment settlement entity may rely to treat the payment as made to a foreign person in accordance with §1.1441-1(e)(1)(ii).

FAQs

- What amount will be reported for “cash back” transactions?
 - The gross amount, with the cash back amount, will be reported.
- What date will be used for the transaction?
 - This question is pending definition from the IRS.
- What reporting will be available for the amounts withheld starting in June 2012?
 - The design is pending, but will include client-level and merchant-level reports for the amounts withheld and for the tracking of notices. As noted, withholding may be required at a state level too. Our channels and their merchants need to know when and why amounts are being withheld.

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Questions?