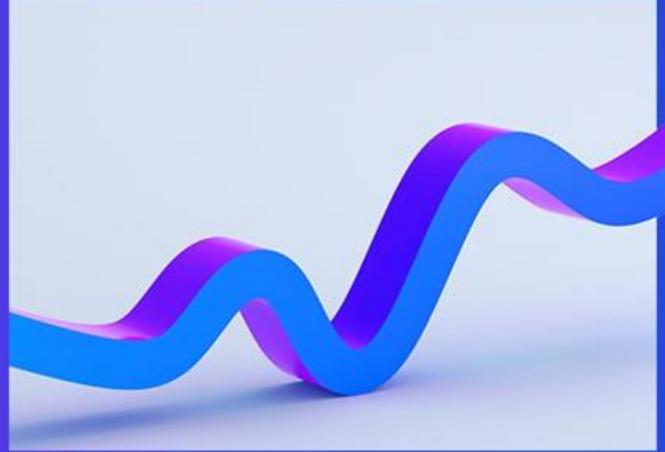


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No Income Tax, No Worries? Form 1099-K State Reporting Issues

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By [Martin Mueller](#) and [Kelli Wooten](#)

Reduced Form 1099-K thresholds for the 2022 tax year will result in increased information reporting. Unfortunately, the challenges extend beyond federal reporting, as state Form 1099 reporting requirements can be much more complex to navigate.

Some states do not require Forms 1099-K, particularly those states with no state income tax – e.g., Texas, Alaska, etc. However, state legislatures in Florida and Tennessee have created two outliers, both for non-income tax reasons.

Background

As discussed in a prior article, Form 1099-K reporting thresholds were lowered under the American Rescue Plan Act of 2021, found [here](#), as a revenue raiser to help provide funding for Covid-19 relief. The legislation amended section 6050W, dropping the de minimis threshold for reporting on third party settlement organizations (TPSOs) from \$20,000 on 200 or more transactions to any qualifying transaction over \$600. The legislation went into effect beginning with payments made after December 31, 2021, meaning that all payments that occur throughout 2022 are subject to the lower requirement.

Roughly half of the states require Form 1099-K reporting in some capacity, with a number of these exempting reporting where withholding has not been required. In most cases, Form 1099-K can be submitted through the Combined Federal/State Filing (CF/SF) Program, making it much easier for taxpayers to comply. Although there are a few states that have set their own thresholds (such as New Jersey at \$1,000 and Arkansas at \$2,500), these would be captured under the new federal thresholds. Thus, taxpayers with no withholding that are utilizing the CF/SF Program are largely covered for state purposes.

While many states tie their reporting requirements to section 6050W, others tie their Form 1099-K requirement to section 6041 (see Virginia, [here](#)) or have specifically set their threshold at \$600 (see Massachusetts, [here](#)). Practically speaking, this difference is inconsequential under current law, as most taxpayers' due diligence processes will capture all required reporting. Note that any changes to the law (a proposed bill, [here](#), would raise federal thresholds to \$5,000) would result in state reporting disparities.

Far more impactful to taxpayers is those states which require direct reporting. For example, Connecticut permits filing under the CF/SF Program where there is no withholding to report, but specifically states that Forms 1099-K must be filed directly with the state. Similarly, Alabama permits filing of most Form 1099 through the CF/SF Program, but specifically excludes Forms 1099-K. Thus, taxpayers need to be aware of each state's individual requirements, as states listed as participating in the CF/SF Program, and even permitting other Forms 1099 to be filed through the CF/SF Program, is not necessarily indicative of the state's filing requirements for Form 1099-K.

Tougher still, it would seem that states which do not assess income tax, and do not require Form 1099 reporting, would bypass Form 1099-K reporting. At its root, Form 1099-K reporting is essentially designed to capture taxable transactions which would otherwise not be caught because they occur through a third-party intermediary. Thus, no state income tax typically means that there is no reason to require taxpayers to report in those states. This is true for seven of the states with no income tax. However, Florida and Tennessee prove to be the exception, for similar reasons – sales tax.

Tennessee

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Key observations

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Save time in Word with new buttons that show up where you need them. To change the way a picture fits in your document, click it and a button for layout options appears next to it. When you work on a table, click where you want to add a row or a column, and then click the plus sign.

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