

RELAXED IRS REPORTING RULES

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TOPLINE: The One Big Beautiful Bill (OB BB) raised the annual threshold above which third-party settlement companies are required to report payment transactions between parties to the IRS. This change helps ensure that things like small Venmo payments between friends aren't swept into IRS reporting requirements.

BACKGROUND: Historically, third party payment settlement companies like Venmo, PayPal, eBay, and Etsy only had to report to the IRS payment transactions if a payee had more than 200 transactions that added up to more than \$20,000 in a year (Form 1099-K). The 2021 American Rescue Plan eliminated the 200 transaction threshold and lowered the dollar threshold from \$20,000 to \$600. This push to give the IRS more visibility into small transactions coincided with a push to bolster IRS funding and expand audits and enforcement against Americans (the next year Congress voted to give the IRS \$80 billion in extra supplementary funding). Facing public backlash over the proposed changes to 1099-K reporting, the IRS delayed implementation of the lower threshold multiple times and through administrative rulings scheduled a gradual transition to the lower \$600 threshold (\$5,000 in 2024 and \$2,500 in 2025).

What OB BB Did:

- Increased the statutory reporting threshold for third-party payment settlement companies from \$600 per payee per year back to \$20,000 per payee per year.
- Reinstated the pre-2021 threshold that only required payment settlement companies to report transactions for individual payees with 200+ transactions in a year.
- Made changes retroactively to eliminate any doubt about the validity of IRS rules that effectively waived or changed reporting requirements for 2022 - 2025.

Why It Matters?

- There were 13 million 1099-K Forms in 2022 before the lower threshold took effect. The IRS anticipated an estimated 44 million forms with the lower \$600 threshold.
- Danny Werfel, the Biden-appointed IRS Commissioner, testified under oath that the lower threshold would be complicated to administer for the IRS (let alone for all the affected companies and individuals).
- JCT estimated stricter reporting would have raised taxes by \$4 billion in 9 years.

Where Can I Find the Changes? OB BB Section 70432 - 70433; 26 U.S.C. § 6050W.

BOTTOMLINE: The IRS could only delay implementation of the unpopular reporting changes for so long. Fortunately, the 119th Congress fixed the 117th Congress's mistake with OB BB.

