

Tax Notes

Surprised by a Form 1099-K? Here's What You Should Know

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Many U.S. taxpayers may have been surprised recently to receive a Form 1099-K, [Payment Card and Third-Party Network Transactions](#), from eBay or another online marketplace. This article will provide some context as to why you received it and why it may be even more likely to occur in the future. We will also provide guidance on the potential tax consequences for occasional online marketplace sellers.

Background

Form 1099-K is an IRS information return used to report certain transactions such as payment card disbursements (e.g., credit, debit or stored-value cards) and third-party settlements exceeding the reporting thresholds. A seller using an online marketplace is generally involved in a payment transaction in which the marketplace makes a payment to the seller at the end of the sale process.

The American Rescue Plan Act of 2021 lowered the Form 1099-K reporting threshold from \$20,000 and 200 transactions to a mere \$600 and a single transaction. This created a significantly higher likelihood that an occasional seller would receive a Form 1099-K.

While the IRS has announced a one-year delay of the new \$600 tax reporting threshold (announced in IRS Notice 2023-10), eBay still conformed to the new standard and sent these forms out to anyone who received more than \$600 in 2022. Unless the IRS delays implementation again, though, occasional sellers in a number of marketplaces will be receiving a Form 1099-K for 2023, so users of any of those sites will want to read on to understand the tax treatment of these payments next year.

Tax Treatment

In all cases, it's important that you provide the Form 1099-K you receive to your tax preparer, even if you had a loss on the items sold. Forms 1099 are easy for the IRS to trace, so it's essential that the amount received gets reported on your return to avoid IRS notices.

The good news is that if you are an occasional seller on eBay, it's likely there is no need for concern that this reporting will lead to an additional tax liability on your individual income tax return. If you are someone who sells personal used items for a loss, there should not be net taxable income. The income is reported on Schedule 1 of Form 1040 as other income on Part I, line 8(z), but also on Part II, line 24(z) as "Form 1099-K Personal Items Sold at a Loss." There is no net income in such cases, but there is also no deduction that can be taken, as the Tax Code does not permit personal losses to offset income. If the items were sold at a gain (perhaps you ended up with a nice profit on those Taylor Swift tickets you couldn't use), that would generate income: the difference between your purchase price and the sale. Depending on the facts, that sale could be ordinary income or capital gain.

If you are someone who is in the business of buying items to resell on eBay (or through another marketplace), the treatment would be different. In that case, the net income from the business would be reported on the individual's Schedule C if it is operated as a sole proprietorship. **[Note:** This article covers the rules for individual taxpayers. If the business is operated through a partnership or corporation, different rules would apply.]

What to Do

If you're receiving a Form 1099-K for the first time, it's important to provide it to your tax preparer so that it's properly included on your tax return, even if it will not generate additional tax. If you didn't receive one this year – but sell on a site other than eBay – be prepared to see one next year. Your tax preparer may also ask about your level of activity so that they can be sure they're properly reporting this income; one of the reasons it's always important to have a trusted advisor as your tax preparer.

Contact Us

If you have any questions about Form 1099-K or other tax matters, contact your engagement team or either of the following:

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