



## Accepting PayPal, Venmo, and Crypto — What You Need to Know



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## INTRODUCTION

# Accepting PayPal, Venmo, and Crypto — What You Need to Know

A close-up photograph of several gold-colored Bitcoin coins resting on a smartphone screen. The screen displays a blue interface, likely a payment app, with a white card-like element. The background is dark and out of focus.

We all accept the fact that each new year ushers in new or updated tax rules, regulations, deadlines, rates, and thresholds. However, changes for 2022 are most remarkable because of their impact on freelancers, independent contractors, and any business that accepts payment via an e-payment platform such as PayPal or Venmo.

Top among these changes affecting many of the above-mentioned freelancers, independent contractors, or businesses is the use of hard, soft, cold, hot, mobile, or digital wallets to accept payments available through cryptocurrencies, which are now perhaps stable enough for businesses to consider accepting.

In this SWC Business Brief, we give you a heads up on what to expect in 2022 so you won't be blindsided at any point during the year ahead. Below, we offer insights into each of the following changes for 2022:

- New reporting rules for payment apps
- What you need to know about accepting cryptocurrencies
- Upcoming tax deadlines
- Changes to the standard deduction
- Marginal tax rates for 2022
- Increase in the earned income tax credit

To avoid any unpleasant surprises at year's end, now is the time to get up to speed on the key changes below and adjust your tax and financial planning accordingly.

### New Reporting Rules for Payment Apps

To reduce the amount of *unreported taxable income* flowing through e-payment platforms such as PayPal, Venmo, and Cash App, the Internal Revenue Service (IRS) is requiring such platforms to report each user's business transactions if they exceed \$600 for the year for goods or services.

The prior threshold for reporting was 200 transactions per year or a combined total of at least \$20,000. That means the new, much lower threshold may have serious ramifications for freelancers and other self-employed contract workers who haven't been reporting their online income in past years.

To be clear, when you're preparing your tax return, you're required to report *all* taxable income you receive from employers, clients, customers, and other sources, for all goods and services (including tips), regardless of whether the person or business that's paying you is reporting that income to the IRS. An example would be a 1099-NEC (Nonemployee Compensation) form.

For instance, if somebody pays you \$200 for your services over the course of the year on Fiverr or Upwork and doesn't send you a 1099-NEC, you're still required to report that income. What's different now is that if you're paid any more than \$600 over the course of the year (starting in tax year 2022) via an online payment platform such as PayPal, the payment platform is required to issue a 1099-K Form reporting that income to you *and* to the IRS.

Here are the key takeaways when using payment apps:

- The change applies only to income from goods and services. It doesn't apply to personal transactions, such as sending your daughter \$1,000 to cover some college expenses or sending a friend \$750 to cover your half of a vacation rental.
- If you haven't been reporting income you received through online payment apps, you must start doing so in 2022. Otherwise, you're placing yourself at an increased risk of



being audited for unreported income and being penalized by the IRS for not following the rules.

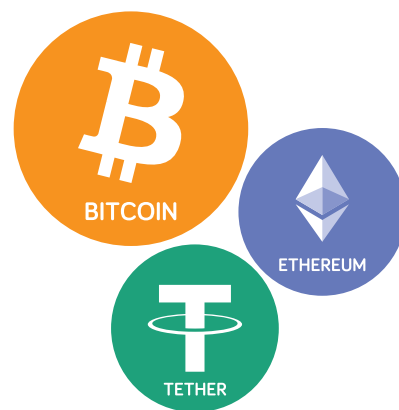
- You may receive two 1099s for the same income – a 1099-NEC from your customer/client, and a 1099-K from the online payment platform. Be sure to report the income only once, so that you're not paying double the tax.
- If you receive two 1099s for the same income, be sure the income amounts match and are accurate.
- If you receive a 1099-K for payments that shouldn't be classified as income, contact the online payment platform to have the information corrected. Otherwise, be prepared to explain the discrepancy to the IRS and your state and local tax authorities.
- As always, keep detailed records of all income payments you receive and cross-check any 1099s you receive against your own records to ensure accuracy.

### What You Need to Know About Accepting Cryptocurrencies

The growing popularity in cryptocurrencies – *digital currency in which transactions are verified and records maintained by a decentralized system using cryptography, rather than by a centralized authority* – hasn't escaped the view of the IRS either. In fact, if you are a freelancer or if your business accepts cryptocurrencies in exchange for products or services, you have the same reporting obligation as you do when accepting cash, credit card, or electronic payments.

For freelancers, that means that *self-employment income* (all gross income derived by an individual from any trade or business carried on by the individual as other than an employee) includes any payments received in the form of a cryptocurrency. As a result, the fair market value of virtual currency that's received for services performed as an independent contractor – measured in U.S. dollars as of the date of receipt – needs to be reported as self-employment income and is subject to the self-employment tax.

If you own or operate a business that accepts cryptocurrencies in exchange for goods or services, you have a similar federal



tax reporting and paying obligation, although your crypto related profits are taxed as capital gains, and expenses related to acquiring the cryptocurrency (or if you sold it at a loss) may be eligible for deduction from your taxes owed.

*If you're thinking about accepting cryptocurrency, or if you've already started to accept it in your business or freelance consulting practice, talk to your CPA or financial advisor right away. While the IRS has traditionally looked the other way on reporting, that's not what they are doing any more!*



### Upcoming Tax Deadlines

As we wrap up tax year 2021 and prepare for tax year 2022, we recommend marking the following tax deadlines on your calendar:

- **Jan. 31, 2022:** Last day for sending out W-2s or 1099-NECs – you should receive a 1099 from every client/customer who has paid you more than \$600 over in 2021 by Feb. 15, 2022
- **March 15, 2022:** Deadline for filing tax returns for Partnerships, LLCs taxed as partnerships, and S-corporations
- **April 18, 2022:**
  - Q1 2022 estimated tax payments due
  - Deadline for filing tax returns for C-corporations, sole proprietorships (businesses you report on a schedule C), and individuals
  - Deadline for filing for an extension
- **June 15, 2022:** Q2 2022 estimated tax payments due
- **Sept. 15, 2022:** Q3 2022 estimated tax payments due
- **Oct. 17, 2022:** Extended deadline for filing 2021 individual tax returns if you filed for an extension

While these deadlines are pretty firm, they are subject to change in response to challenges posed by the COVID-19 pandemic or other unforeseen events or conditions.

### Changes to the Standard Deduction

For 2022, there is no limitation on itemized deductions, but you should weigh itemizing against the benefits of taking the standard deduction, which is:

- \$25,900 for married couples filing jointly, which is up \$800 from 2021
- \$12,950 for single taxpayers and married individuals filing separately, which is up \$400 from 2021
- \$19,400 for heads of households, which is up \$600 from 2021

### Tax Brackets: 2022 Marginal Tax Rates

Another change you should be aware of starting in 2022 — the marginal tax rates. The marginal tax rates for 2022 are as follows:

- 37 percent for single taxpayers with incomes greater than \$539,900 or \$647,850 for married couples filing jointly
- 35 percent for single taxpayers with incomes over \$215,950 or \$431,900 for married couples filing jointly
- 32 percent for single taxpayers with incomes over \$170,050 or \$340,100 for married couples filing jointly
- 24 percent for single taxpayers with incomes over \$89,075 or \$178,150 for married couples filing jointly
- 22 percent for single taxpayers with incomes over \$41,775 or \$83,550 for married couples filing jointly
- 12 percent for single taxpayers with incomes over \$10,275 or \$20,550 for married couples filing jointly
- The lowest rate is 10 percent for incomes of single individuals with incomes of \$10,275 or less (\$20,550 for married couples filing jointly)



### Earned Income Tax Credit

Finally, the maximum federal Earned Income Tax Credit (EITC) is now \$6,935 for qualifying taxpayers who have three or more qualifying children, which is an increase of \$207. If you're unfamiliar with EITC, it's a refundable tax credit for low- to

moderate-income working individuals and families, particularly those with children. The amount of EITC benefit depends on your income and number of children.

Although our current focus is primarily on helping our clients file their 2021 tax returns, the next few months are also the best time to start planning for the 2022 tax year. The steps you take now can help you avoid surprises later in the tax year, all the while protecting and growing your wealth in years to come.

And for anyone thinking about collecting cryptocurrencies or accepting them in their business, please schedule a meeting with us to ensure you remain in compliance with federal and state reporting requirements.

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**Disclaimer:** *The information in this SWC Business Brief about accepting PayPal, Venmo, and cryptocurrencies is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this brief should be construed as financial advice from the staff at SWC (Stees, Walker & Company, LLP), nor is the information contained in this brief intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this brief should act or refrain from acting on the basis of any information included in, or accessible through, this brief without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*

