

The IRS Merchants' Transactions Reporting Requirements: An Update on First Data's Actions

Introduction

This communication is the second in a series of regular updates to our clients and partners on the impact of new IRS reporting requirements to become effective January 1, 2011. The [first update](#) provided an overview of the legislation, its potential impact and a preliminary time frame for how First Data will respond over the coming months to implement the requirements. These first steps are in anticipation of regulations to be issued by the Secretary of the Treasury in the coming months to clarify the requirements.

Reporting Requirements and Processes

The new transaction reporting requirements require "merchant acquiring entities" to report the gross amount of their merchant customers' payment card transactions to the IRS. A merchant acquiring entity is defined as the bank or other organization contractually obligated to make payment to merchants in settlement of payment card transactions. These new requirements have created some confusion and anxiety among both merchants and financial institutions—but both parties can minimize frustrations by making the necessary preparations to comply with the law as its requirements are understood today, well in advance of the law's effective date.

Communicating Information

We will continue to provide regular communications regarding timelines, expected milestones and client impact assessments. In addition, look for First Data-sponsored webinars and client Web sites for information.

Since our first communication about the new IRS Merchants' Transaction Reporting Requirements in April 2009, we have made considerable progress in our effort to ensure that we and our customers are ready for the new regulations. As reported previously, a First Data team with members from all business units was formed in March 2009. This team has been busy developing processes and new systems in order to make us compliant, and to help our customers understand their needs and responsibilities.

Key Tasks

On the next page is the list of tasks from the first update, with the current status. As you can see from the updated task summary, we are slightly ahead of our original schedule for key tasks.

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Task	Status	Original Target	Revised Target
TIN Matching and Validation			
→ Run Batch File Validation tests to assess Masterfile and TIN field validity.	A process to validate the Merchant Tax ID numbers was created and successfully deployed in April 2009 for all First Data platforms. First Data was given access to an IRS system that allowed us to submit files with data from our merchant Masterfiles to verify if our name/TIN combinations matched what the IRS has on file.	06/30/09	Complete
→ Finalize and implement an IRS Batch File validation process.	First Data established the procedures to connect to the IRS database, and to send and receive validation files. We are validating merchant legal names and Tax ID numbers with the IRS database for all merchants on all platforms.	1/31/10	10/31/09
→ Detailed communication of the plan for a Web-based tool for merchant TIN/name validation and attestation.	Requirements for the Web-based tool were complete and signed off by all development teams by July 31, 2009. This tool will allow merchants that have invalid TINs on our files to authenticate themselves and subsequently provide a corrected TIN and attestation.	1/31/10	1/31/10
→ Launch of Web tool.	Development will begin in Q3 of 2009.	NA	4/15/10
→ Development of toll-free voice response unit for merchant TIN/validation and attestation.	Design complete.	02/28/10	2/28/10
New Account Processes – TIN/Name validation.	In progress.	TBD	9/30/09
Reporting requirements for 1099 creation, delivery to merchants and IRS, and retention requirements.		TBD	TBD
Tax Withholding – process for reconciliation and handling of customer inquiries.		TBD	

As noted above, this is the second update in our series of regular communications regarding timelines, expected milestones and client impact assessments. In addition, look for forthcoming First Data-sponsored webinars and client Web sites for more information.



If you have questions, please contact
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