

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

## Introduction

This communication is the third in our series of updates to clients and partners on the IRS reporting requirements which become effective January 1, 2011. The first update provided an overview of the legislation, and the second provided an update on First Data's efforts.

## IRS Comments Received

On November 23, 2009, the IRS issued its proposed regulations under the new reporting law. Several concepts were clarified. For example:

- Gross amounts of transactions have been clearly defined as the amount of sales without regard to any adjustments for credits, returns, chargebacks, fees or discount.
- Clarity on the obligations to report on transactions for aggregated payees has been provided.
  - A payer has an obligation to report on the amounts paid to the payee, and not on amounts distributed by the payee to others.
- The IRS released a draft of a new Form 1099-K to be used for merchant reporting.
  - The document is subject to further changes by the IRS, but it is known that payers will be required to report monthly totals for each calendar year, in addition to the aggregate annual total.

A number of items were not clearly defined in the proposed regulations. Public comments on the proposed regulations must be submitted to the IRS by January 25, 2010. First Data will prepare and deliver our comments by that date. A public hearing is also scheduled for February 10, 2010. First Data is considering participation at this forum.

## Key Task Update

The proposed regulations provide information that allows us to continue to make progress on our efforts. The key tasks are described below.

TASK	STATUS	ORIGINAL TARGET	REVISED TARGET
<b>Tin Matching and Validation</b>			
<ul style="list-style-type: none"> <li>• Run Batch File validation test to assess Masterfile name and TIN field validity</li> </ul>	A process to validate the Merchant Tax ID numbers was created and successfully deployed in April 2009. First Data utilizes the IRS TIN matching system to submit files with data from the merchant master files to verify if the name/TIN combinations match IRS records. This issue was closed with the success of the pilot customer validations.	6/30/09	Complete
<ul style="list-style-type: none"> <li>• Finalize and implement an IRS Batch File validation process</li> </ul>	First Data implemented the procedures for validation into our production systems. We have been running validation jobs since the summer, and completed the initial list of clients on October 31. As new approvals are received from clients and channels, the process is implemented.	1/31/10	Production Install Complete 10/31/09 Additional clients implemented as approval is received.
<ul style="list-style-type: none"> <li>• Detailed Communication of the plan for a web based tool for merchant TIN/name validation and attestation</li> </ul>	Requirements for the web tool are complete. The web tool will allow merchants to authenticate themselves, after which they will be prompted to enter a valid TIN and/or the correct IRS filing name. The tool will record the time/date of the merchant update. Documentation to be published on the web site cited below on January 31, 2010.	1/31/10	1/31/10
<ul style="list-style-type: none"> <li>• Launch of Web tool</li> </ul>	Development began in October 2009. Progress continues.	4/15/10	4/30/10
<ul style="list-style-type: none"> <li>• Development of toll-free voice response unit for merchant TIN/validation and attestation</li> </ul>	Design in progress. The scope of this task expanded. In addition to toll free VRU, merchants will be able to provide updated information by calling and talking to a customer service representative or send a fax to a dedicated number.	2/28/10	2/28/10 - design
<ul style="list-style-type: none"> <li>• Implementation of toll free voice response unit into production</li> </ul>	In progress	NA	4/30/10

New Account Process – TIN validation	An online link to the IRS for validation of TINs at boarding time is not available. The IRS has recently advised they do not have funding approval and it may be two or more years before the application is ready. New accounts added in 2010 will be validated in the batch process after boarding. A solution to the boarding process for 2011 and beyond will be developed and offered, as appropriate.	9/30/09	7/31/10
Reporting requirements for 1099 creation, delivery to merchants and IRS retention requirements	In progress	NA	6/30/10 - for design
Tax Withholding – process for reconciliation and handling of customer inquiries	Requirements to be created	NA	9/30/10 - for design

For your convenience, this document and all other published reports on our progress will be available for viewing online at:  
[http://www.firstdata.com/en\\_us/insights/irs-merchants-transactions-reporting-](http://www.firstdata.com/en_us/insights/irs-merchants-transactions-reporting-)

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