COMMITTEE ON FINANCE
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Max Baucus, Chairman
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For Immediate Release | Contact: Dan Virkstis
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SENATE HOUSING BILL PAYMENT CARD PROVISION:
COMMONLY ASKED QUESTIONS

This document answers commonly asked questions about the payment card and third-party network information reporting provision in the Finance tax measures offered as part of the Senate substitute amendment to the housing bill, H.R. 3221. The provision is designed to offset the cost of providing much-needed help to the lagging housing sector by helping the IRS collect owed taxes more efficiently. Key questions with ensuing answers about the payment card reporting provision are as follows:

- **Q: What does the proposal do?**

A: The proposal would require banks to provide merchants and the IRS with the total dollar amount of credit card sales made during the year.

- **Q: How does the reporting work?**

A: Banks and online payment networks will report the annual gross amount of reportable transactions to the IRS and to the participating merchant. Reportable transactions include credit card sales and on-line sales settled through a third party payment network. Participating merchants include businesses that accept a payment card as payment and online vendors whose payments are facilitated through online payment systems.

- **Q: Do merchants have to do the reporting? Won't this burden small businesses with big new requirements to report transactions to the IRS?**

A: No. This proposal requires banks, not businesses, to do the additional reporting. In fact, banks would report to the merchants – as well as to the IRS – the gross amount of credit and debit card payments the merchant received during the year. Taxes on any credit card transaction are already legally owed. Similarly, online networks would be required to report sales to their online sellers.

- **Q: Does this provision affect consumer privacy? Does every individual credit card transaction get reported?**

A: No. Banks are not reporting individual transactions to the IRS, and so the proposal does not raise personal consumer data privacy issues. Banks are reporting the aggregate gross dollar amount the merchant received from credit card sales during the year. Only the IRS has access to the information reporting data. This proposal asks for the same type of personal taxpayer information that other information reports currently required by the IRS contain. Merchants voluntarily enter into credit card arrangements with banks and voluntarily provide private information during that process. Banks are subject to their own privacy laws and policies. Existing law already strictly protects the privacy of taxpayer records.

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- **Q: Will this provision really achieve better tax compliance?**

  A: Yes. IRS research shows a 46% compliance rate without information reporting, and over 90% with information reporting. While many businesses report all their income, clearly many do not. The IRS matches information returns to filed tax returns to determine if income has been reported accurately. This reduces the burden on the IRS and honest taxpayers by identifying the underreporters.

- **Q: Does this provision unfairly target online systems?**

  A: No. The provision is drafted in such a way that it does not burden one type of business model more than another, and keeps the type of information reported consistent among all online payment systems. The proposal addresses many of the concerns of industry stakeholders.

- **Q: What is the $10,000 / 200 transaction rule?**

  A: This means that banks are not required to issue the report to businesses that have credit card sales of less than $10,000 or have fewer than 200 transactions.

The housing tax provisions offered by Finance Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) include a standard property tax deduction for all homeowners, tax credits and incentives for first time home buyers to purchase homes and reduce the existing stock of unoccupied housing, and increased funding for mortgage revenue bonds, which will help homeowners and buyers obtain affordable loans.

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