



McDONALD JACOBS

ACCOUNTANTS & CONSULTANTS

*Strength in Numbers*

December 1, 2011

To Our Clients:

As the year comes to a close, we'd like to inform you of some changes to reporting requirements surrounding credit card transactions and cell phones used for business.

### **Form 1099-K**

Beginning in January 2012 (for the 2011 tax year) both your business and the IRS will receive the new Form 1099-K from your credit card processing company if you have more than 200 transactions or \$20,000 of total transactions processed via credit card. Form 1099-K, Merchant Card and Third Party Network Payments, will serve to report your business's total gross aggregate reportable payment transactions for the 2011 tax calendar, as well as each month.

Once you've submitted the form, the IRS will use the data in one of two ways:

- If your business receives revenue solely from credit card transactions, the IRS will compare the revenues you've reported to the information from the new Form-1099K it will receive from your credit card processor.
- If your business receives its revenue from both credit card transactions as well as cash transactions, the IRS will compare your company's total reported revenue to industry averages. In doing so, the IRS will be able to determine what percentage of your revenue was derived from credit card transactions, and whether you've filled out your tax return accurately.

### **Cell Phones used for Business**

Included in the Small Business Jobs Act of 2010 was a provision that removed cell phones from the definition of listed property for tax years beginning after December 31, 2009. Since enactment of this provision, the IRS has received questions about the proper treatment of employer-provided cell phones.

In 2011, the IRS issued Notice 2011-72 which established taxpayer-friendly rules for employer-provided cell phones. The Notice explains that as long as an employee is provided a cell phone primarily for noncompensatory business purposes, neither the business or personal use of the cell phones will result in taxable income to the employee. Additionally, no record keeping of cell phone usage is required. Examples of noncompensatory business purposes include the need for the employee to be available at all times via phone for work emergencies and the need for the employee to be available to communicate with clients when away from the office or outside of normal working hours.

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Please give us a call if you have questions or want to know more about Form 1099-K or cell phones used for business.

Best regards,

*McDonald Jacobs, P.C.*