



## **IRS 6050W Electronic Reporting Requirements: Important Information for Farmers Markets**

### **Background on IRS 6050W**

On August 16, 2010, the IRS issued final regulations (Treasury Decision 9496) related to Internal Revenue Code Section 6050W, which generally requires information reporting on payment card transactions occurring after December 31, 2010. This rule requires all electronic card processors to issue 1099K's to all merchants accepting electronic payments. This includes all credit, debit, and food stamp payments. Unfortunately, IRS did not consider the implications this rule would have on non-traditional retailers such as farmers markets operating a scrip system. Notification was made to USDA Food and Nutrition Service after the comment period to this new rule was closed. Farmers Market Coalition, working with other allies, urged the IRS to clarify how this rule would be imposed on markets operating a scrip system. The information that follows is based on the clarifications provided by the IRS on IRC 6050W as it pertains to farmers markets.

### **Farmers Market Reporting and Conditions for Exemption**

As the rule is written, all merchants of electronic payment processors will receive a 1099-K beginning in 2012, reflecting payments made in the prior tax year, informing both the merchant and the IRS of the sum total of all electronic payments (including EBT, debit, and/or credit).

A third party network is any arrangement which involves the establishment of accounts with a central organization by a substantial number of persons (50 or more, according to the legislative history) who provide goods or services, who are unrelated to the organization, and who have agreed to settle transactions through the arrangement. A farmers market operating a token or scrip system is considered a third party network, where customers use electronic payment to receive approved scrip from a central payor (the farmers market), which is then exchanged for goods with individual market stall-holders, who are reimbursed by the central payor.

Third party network transactions are reportable from the central payor (market) to the payee (farmer) only if they meet the definition of a third party network and if the number and amount of the transactions exceeds certain thresholds. Thus, small farmers markets (those with 50 or fewer stall merchants) are not subject to this level of reporting because they are not third party networks. Larger farmers markets that constitute third party networks are subject to 6050W only to the extent that payments to a particular stall merchant involve more than 200 transactions and exceed \$20,000 per calendar year (*Note: "transactions" refers to the exchange of scrip between farmer and farmers market, not between customer and farmer*). In these cases, farmers market managers would collect Taxpayer ID numbers or Social Security Numbers for each of their vendors accepting tokens that originated from electronic transactions,

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and prepare and issue 1099-K's to each of these vendors that reflected their month-by-month reimbursement transactions.

All transactions are reportable, meaning 1099-K forms to vendors are required if the annual total of scrip reimbursements for a given vendor exceeds \$20,000, and the aggregate number of reimbursements exceeds 200 over the course of the calendar year. The total transactions include all debit, credit, and EBT transactions. Here are some tests to determine if you are exempt under this rule clarification.

**1) Do you have 50 or more farmers and vendors accepting and redeeming tokens?**

*If yes, continue to number 2.*

*If no, then you are exempt from issuing 1099-Ks to your farmers and vendors.*

**2) Do you have any farmers or vendors to whom you make reimbursements 200 or more times during the year AND the total reimbursement exceeds \$20,000?**

*If yes, then you must issue a 1099-K only to those particular vendors.*

*If no, then you are exempt.*

Note that all vendors are each individually responsible for reporting to the IRS ALL income derived from market sales, including cash, check, token, and electronic sales.

It is recommended that transaction logs be maintained by all markets operating scrip systems, tracking the number of reimbursements and total value of transactions per farmer/vendor. These logs should be maintained as your proof of exemption with IRS. An excellent example of such a form is available in the Farmers Market Coalition Resource Library, courtesy of the Carrboro Farmers Market.

### **Impact on Farmers Market Income**

Markets that are operating as a nonprofit, or under the umbrella of a nonprofit, will be able to show the income reported on a 1099-K as pass through income by showing the income and the expense (reimbursements) on their 990. The unredeemed income will be held as a liability on your financial statement.

Markets that are operating EBT under a manager's personal Social Security Number, however, will need to file a Schedule C-EZ. This form is for Net Profit from Business. Your "income" as reported on the 1099-K from the service provider (for example, FIS Government Solutions), will be recorded here. The income can be offset by noting the expenses deducted out of this income: payments to farmers, operating expenses (e.g. mileage to and from the market, cost of terminal paper, receipt book, etc.). This income can be brought to a negligible sum or zero by this method. The income reported to IRS, then, would not impact your personal income tax.

Persons trying to determine whether they have a reporting obligation, who has the ultimate obligation to report, and how, are advised to contact IRS at 1-800-829-1040. As always, please check with your own tax accountant for specific instruction.

- A set of Frequently Asked Questions about IRC 6050W is available the IRS web site at [http://www.irs.gov/pub/irs-utl/irdm\\_section\\_6050w\\_faqs\\_7\\_23\\_11.pdf](http://www.irs.gov/pub/irs-utl/irdm_section_6050w_faqs_7_23_11.pdf)
- The powerpoint from a webinar co-hosted by FMC and the Michigan Farmers Market Association in October 2011 is available at <http://farmersmarketcoalition.org/wp-content/uploads/2011/10/October-10-Webinar-on-IRS-6050W.pdf>.

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