



IRS 6050W Electronic Reporting Requirements

What is it?

In October 2010, a final rule was enacted by the IRS that requires all electronic card processors to issue 1099K's to all merchants accepting electronic payments. This includes all credit card, debit card 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. USDA FNS, however, knew immediately that this rule would negatively impact farmers markets and began to work with IRS, in partnership with the Farmers Market Coalition, to clarify how this rule would be imposed on markets operating a scrip system.

Impact on Farmers Market Workload

As the rule was written, all merchants of electronic payment processors would receive a 1099K, informing both the merchant and the IRS of the sum total of all electronic payments. Merchants who collect payments on behalf of their merchants (i.e. markets operating a single terminal program) would in turn, issue 1099K's to each of their merchants. Farmers market managers would be burdened with collecting Taxpayer ID numbers or Social Security numbers for each of their farmers and vendors accepting tokens, and prepare 1099K's for each of these vendors. USDA FNS was as concerned as farmers market managers and organizations, that this would cause widespread withdrawal from the program and leave their consumers with fewer fresh, healthy food choices.

After much negotiation, IRS has issued clarification on the rule 6050W as it pertains to farmers markets. All transactions are reportable, meaning 1099K 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 the next test.
If no, then you are exempt from issuing 1099Ks to your farmers and vendors.
- 2) Do you have any farmers or vendors where you make reimbursements 200 or more times AND the total reimbursement exceeds \$20,000?
If yes, then you must issue a 1099K only to those vendors that meet this test.
If no, then you are exempt.

The transaction logs that are required of all participating farmers markets operating the token program under the NYS Farmers Market Wireless EBT program will help you track the number of reimbursements and total value of transactions per farmer/vendor. These logs should be maintained as your proof of exemption with IRS.

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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 1099K 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 1099K from the service provider, FIS Government Solutions, will be recorded here. You can offset the income by noting the expenses that will offset this income: payments to farmers, operating expenses, such as mileage to and from the market, cost of terminal paper, receipt book, etc. You should be able to bring this income to a negligible sum or zero by this method. The income reported to IRS, then, would not impact your personal income tax.

As always, please check with your own tax accountant for specific instruction.

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