



March 2018

## Regulatory Accounting Assistance Program (RAAP) Huddle Takeaway

### **Background:**

The Housing Assistance Tax Act of 2008 included the creation of Section 6050 W of the Internal Revenue Code. 6050 W requires card processing reporting entities to report the **gross** amounts of their merchant customers' payment card and third party network transactions to the Internal Revenue Service (IRS). It appears the objective of the government in enacting this federal regulation is to help the IRS identify under-reported merchant payment card transactions. If a merchant fails to provide its correct TIN, or if the IRS notifies the reporting entity that the legal name/TIN combination does not match, the Acquirer will be required to withhold tax on the merchant's future funding amounts. Backup withholding (also called a B-Notice), which is currently at 28% of total gross processing.

### **RAAP Product & Reporting:**

In response to a market demand created by these IRS Rules, APS in conjunction with Vantiv has developed the Regulatory Accounting Assistance Program (RAAP). Regardless of the Merchant's income tax filing form, i.e. Form 1120S for S Corporations, 1120 for Corporations, 1065 for Partnerships or Limited Liability Companies, or 1040 Schedule C for Sole Proprietorships, the information that will be contained in the Merchant's 1099-K is critical.

Box 1 of the 1099-K will contain the **Gross Sales Amount** of the Merchant's card/third party network payments, for the entire calendar year and each month separately. A copy of an actual 1099-K will be attached to this takeaway packet. If any Merchant processes American Express ("Amex") under the ESA program, Amex will send the Merchant a separate 1099-K. If the Merchant's business is typical of most businesses, they will issue credits or returns to their customer's card, and in many instances, also experience Chargebacks. This will cause the Gross Amount reported to the Merchant on their 1099-K to be different than the Net Amount of card transactions settled to the Merchant.

Determining the **Gross vs. Net** can be an accounting challenge for many Merchants and their tax preparers, both for filing of quarterly tax estimates and Year End tax returns. Accounting for and reconciling the Gross card transactions to Net amounts is more important than ever.

RAAP is an online, web-based application integrated with APS's existing web reporting online portal, that will provide Merchants with a reconciliation tool and reporting. Merchants will have the capability to view, print and download existing payment accounting data and compare that data against gross payments reportable to the IRS. It is anticipated these tools will likely save Merchants time and money when they or their tax preparers complete their quarterly tax estimates or annual income tax returns.

**APS cannot and is not providing tax, legal or other professional advice, and, APS is encouraging all Merchants to consult their tax or legal advisor about the IRS regulation and their filing obligations.** However, the RAAP tools and reporting will provide the Merchant and their tax preparer's easy access to information critical to help them comply.

CORRECTED (if checked)

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.  VANTIV LLC 8500 GOVERNORS HILL DRIVE, 1GH2X2 SYMMES TOWNSHIP, OH 45249-1384  (866) 458-7280		FILER'S federal identification no. 264372027	OMB No. 1545-2205  <b>2016</b>  Form 1099-K	<b>Payment Card and Third Party Network Transactions</b>
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input checked="" type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		PAYEE'S taxpayer identification no. XXXXX6610	1a Gross amount of payment card/third party network transactions <b>\$ 12,890,708.90</b>	
Check to indicate transactions reported are: Payment card <input checked="" type="checkbox"/> Third party network <input type="checkbox"/>		1b Card Not Present transactions <b>\$ 12,890,708.90</b>	2 Merchant category code 5719	<b>Copy B For Payee</b>  This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
PAYEE'S name [REDACTED]		3 Number of payment transactions <b>19265</b>	4 Federal income tax withheld <b>\$ 0.00</b>	
Street address (including apt. no.) [REDACTED]		5a January <b>\$ 0.00</b>	5b February <b>\$ 0.00</b>	
City or town, state or province, country, and ZIP or foreign postal code [REDACTED]		5c March <b>\$ 992.95</b>	5d April <b>\$ 1,091,988.04</b>	
PSE'S name and telephone number VANTIV LLC - (866) 458-7280		5e May <b>\$ 1,730,397.97</b>	5f June <b>\$ 1,500,014.28</b>	
Account number (see instructions) 6M4A9F7EIERA9RAYW6		5g July <b>\$ 1,504,158.86</b>	5h August <b>\$ 1,557,933.20</b>	
		5i September <b>\$ 1,418,832.65</b>	5j October <b>\$ 1,440,020.28</b>	
		5k November <b>\$ 1,502,167.62</b>	5l December <b>\$ 1,144,203.05</b>	
		6 State	7 State identification no.	
			8 State income tax withheld <b>\$ 0.00</b>	

**Instructions for Payee**

Merchant card and third party network payers, as payment settlement entities (PSE), must report the proceeds of payment card and third party network transactions made to you on Form 1099-K under Internal Revenue Code section 6050W. You have received this form because you have accepted merchant cards for payments, or because you received payments through a third party network that exceeded \$20,000 in gross total reportable payment transactions and the total number of those transactions exceeded 200 for the calendar year.

The PSE may have contracted with an electronic payment facilitator (EPF) or other third party payer (TPP) to make payments to you. If you have questions about the amounts reported on this form, contact the FILER whose information is shown in the upper left corner on the front of this form. If you do not recognize the FILER shown in the upper left corner of the form, contact the PSE whose name and phone number are shown in the lower left corner of the form above your account number.

**Account number.** May show an account number or other unique number the PSE assigned to distinguish your account.

**Box 1.** Shows the aggregate gross amount of merchant card/third party network payments made to you through the PSE during the tax year.

**Boxes 5a-5l.** Shows the gross amount of merchant card/third party network payments received by you for each month of the reporting calendar year. This amount is provided to assist you in the accurate preparation of your fiscal year tax return.

Net Reporting from MyMerchantData.com

<b>Card Summary - 52000XXXXXXX - XXXXXXXXXXXXXXXXXXXXXXXX (1/1/2016 - 12/31/2016)</b>			
<b>Card Type</b>	<b>Tran Code</b>	<b>Tran Count</b>	<b>Tran Amount</b>
AX-B	Return	39	(\$85,391.76)
AX-B	Sale	398	\$554,627.57
DV-M	Return	118	(\$53,800.95)
DV-M	Sale	803	\$527,272.22
MC	Return	730	(\$320,485.09)
MC	Sale	5,039	\$3,208,937.19
VI	Return	1,932	(\$864,118.06)
VI	Sale	13,025	\$8,599,871.92
Report Total		22,084	\$11,566,913.04

Gross Reporting to reconcile 1099k - Notice all return volume has been removed

<b>Card Summary - 52000XXXXXXX - XXXXXXXXXXXXXXXXXXXXXXXX (1/1/2016 - 12/31/2016)</b>			
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AX-B	Sale	398	\$554,627.57
DV-M	Sale	803	\$527,272.22
MC	Sale	5,039	\$3,208,937.19
VI	Sale	13,025	\$8,599,871.92
Report Total		22,084	\$12,890,708.90

Gross Volume Processed per 1099k as reported to the IRS	\$12,890,708.90
Total Returns not reported on 1099k to the IRS	(\$1,323,795.86)
Total Chargebacks not reported on 1099k to the IRS	(\$118,124.55)
Total End of Month Fees not reported on 1099k to the IRS	(\$283,670.74)
Net Volume Processed per RAAP not reported to the IRS	\$11,165,117.75
Difference in Income Reported (Tax Liability)	<b>\$1,725,591.15</b>