

Update on IRS Electronic Payment Reporting Requirements!

Provided by: [Farmers Market Coalition, Stacy Miller - Executive Director](#)

Earlier this year, IRS issued a final rule on "Information Reporting Requirements Payments Made in Settlement of Payment Cards and Third Party Network Transactions" (6050W for short). Many of you have been eagerly awaiting a final word regarding the reporting obligations of markets operating scrip systems. Are they required to issue 1099s to each individual farmer to whom they reimburse token purchases?

Since early spring, FMC has been engaged in discussions about potential interpretations and implications, and, with the help of pro bono legal guidance and the research efforts of members like the Farmers' Market Federation of New York, gone back and forth with officials in IRS and USDA. In early June, staff in Maine Representative Chellie Pingree's office took the lead on a [letter](#) on behalf of fourteen House members urging IRS to clarify their interpretation and eliminate uncertainty around the requirements. By the way, below this message is a list of those Representatives, so that you can [send them a thank-you email!](#)

I'm writing today to let you know that the saga reached a new milestone last week when the IRS came to determination about how farmers markets operating scrip systems are to be considered for purposes of reporting electronic transactions. In short, it's good news. Below is text, reviewed and developed in cooperation with IRS, about how they interpret the 6050W rule.

Farmers Markets Requirements Concerning IRS 6050W

A central payor in a farmers market scenario may have an obligation to issue information reports (via a 1099-K) documenting payments made to market stall merchants if their relationship meets the definition of a third party network and if the number and amount of the transactions exceeds certain thresholds.

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). Third party network arrangements, in a farmers market context, may include scrip currency programs. In such arrangements, 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 (the farmers market). **Third party network transactions are reportable only if total annual transactions with respect to a particular payee exceed \$20,000 and 200 in number.**

Thus, small farmers markets (those with 50 or fewer stall merchants) are not subject to 6050W 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. *(Note: "transactions" refers to the exchange of scrip between farmer and farmers market, not between customer and farmer).*

Documentation:

A central payor is responsible for keeping books and records to substantiate that he/she is exempt from 6050W information reporting as a third party network. The primary reasons a small farmers market would be outside the scope of 6050W would be because (1) there are not a "substantial number" of farmers (fewer than 50) to whom a central payor is making payments, (2) payments to any given farmer in the market by such a central payor do not exceed \$20,000 in a calendar year or (3) transactions by any given farmer (in which the farmer exchanges redeemed scrip for cash by the central payor) do not exceed 200 in a calendar year. Depending on the sophistication of the central payor (farmers market), much of this information is already being kept. Information about the number of vendors to which the central payor makes payment, the number of transactions with each vendor, and the total amount paid out are all relevant items for documentation. This information should be collected and maintained for each calendar year beginning January 1, 2011. For more specific legal and taxation advice, farmers markets should seek services of a qualified tax professional.

More information about Internal Revenue Code section 6050W can be found on the [IRS web site](#). Third party networks subject to full reporting requirements under 6050W can preview form 1099-K [here](#).