

## Form 1099-K Reporting

As you already know, Forms 1099-K are being issued to taxpayers if their total transactions for the 2024 calendar year are \$5,000 or more. But do you remember how to report the information from the Form 1099-K onto the Form 1040 tax return? IRS provides guidance on its website, but we want to discuss the newest line on the 2024 Form 1040, Schedule 1.

There is a new line just below the name and SSN, and above line 1. It says, "For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss."

This sounds easy enough to understand, in part. If the taxpayer sold a personal use item at a loss, the loss is not deductible. We can now show the Form 1099-K amount on this line, instead of showing it as a nondeductible loss on Form 8949.

But what does IRS mean by an amount reported on Form 1099-K "in error"? Our thinking of "in error" is that the Form 1099-K should have been sent to someone else, but was mistakenly sent to the taxpayer, such as in an identity theft situation. But IRS mentions receiving "money for gifts or reimbursements." So, keep this in mind as you read the following.

Here is what IRS says in the instructions for this line (Form 1040, Schedule 1):

### BEGIN IRS QUOTE

- If, for tax year 2024, you received a Form(s) 1099-K that shows payments that were included in error (for example, money for gifts or reimbursements) or for personal items that you sold at a loss (for example, an old refrigerator), enter the amount that was included in error or for personal items sold at a loss in the entry space at the top of Schedule 1.
- If the entire amount reported to you on Form(s) 1099-K was in error or for personal items sold at a loss, enter the total amount from Form(s) 1099-K, box 1(a), in the entry space at the top of Schedule 1.
- If only some of the amount reported to you on Form(s) 1099-K in box 1(a) was in error or for personal items sold at a loss, only enter the amount that was in error or for personal items sold at a loss in the entry space at the top of Schedule 1. The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transactions.
- If you received more than one incorrect Form(s) 1099-K, with amounts reported in error or for personal items sold at a loss, add the incorrect amounts from each Form 1099-K together and enter the total incorrect amount in the entry space at the top of Schedule 1. The remaining amounts reported to you on Form(s) 1099-K in box 1(a) should be reported elsewhere on your return depending on the nature of the transactions.

- If you received a Form 1099-K for a personal item that you sold at a gain, don't report this amount in the entry space at the top of Schedule 1; instead report it as you would report any other capital gain on Form 8949 and Schedule D.

Example—Incorrect Form 1099-K. You received a Form 1099-K that incorrectly showed \$800 of payments to you in box 1(a). You would enter \$800 in the entry space at the top of Schedule 1.

Example—Personal item sold at a loss. You bought a couch for \$1,000 and sold it through a third-party vendor for \$700, which was reported in box 1(a) of your Form 1099-K. You would enter \$700 in the entry space at the top of Schedule 1.

Example—Personal items sold at a loss and a gain. In addition to selling your couch for \$700, you also sold a handbag that you bought for \$800 and sold for \$1,200. Your Form 1099-K shows \$1,900 in box 1(a). You would enter \$700 in the entry space at the top of Schedule 1 for your loss on selling the couch and the remaining \$400 of gain from the sale of the handbag would be reported as capital gain on Form 8949 and Schedule D.

Example—Multiple incorrect Form(s) 1099-K. You received a Form 1099-K that incorrectly showed \$800 of payments to you in box 1(a). You also received a Form 1099-K that reported \$6,000 in box 1(a) but \$700 of that amount was reported in error. You would enter \$1,500 in the entry space at the top of Schedule 1. The remaining \$5,300 should be reported elsewhere on your return depending on the nature of the transactions.

END IRS QUOTE

A side note – showing an amount in this box is telling IRS this amount does not create income for the taxpayer. This means the taxpayer should be prepared to support that this amount is indeed either “in error” or for sale of personal use items at a loss. This also means tax professionals should be asking clients questions before arbitrarily putting a Form 1099-K amount on this line. This includes informing clients of their responsibility when an amount is shown on this line.

You need to ask for the Form 1099-K. Taxpayer may be unfamiliar with it and failure to show the amount on the Form 1040 return may result in an IRS letter.

Mary and David wish you a successful tax season.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (fax 920-496-9111).

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