INTRODUCE COMPREHENSIVE FINANCIAL ACCOUNT REPORTING TO IMPROVE TAX COMPLIANCE

Current Law

Business income is subject to limited information reporting. Current information reporting of gross receipts exists for only certain types of revenue (from Forms 1099-MISC, 1099-NEC, and 1099-K), and there is no information reporting on total deductible expenses.

Reasons for Change

The tax gap for business income (outside of large corporations) from the most recently published Internal Revenue Service (IRS) estimates is $166 billion a year.[1] The scale of this revenue loss is driven primarily by the lack of comprehensive information reporting and the resulting difficulty identifying noncompliance outside of an audit. While the net misreporting percentage is only 5 percent for income subject to substantial information reporting, the net misreporting percentage for certain categories of business income exceeds 50 percent.

Requiring comprehensive information reporting on the inflows and outflows of financial accounts will increase the visibility of gross receipts and deductible expenses to the IRS. Increased visibility of business income will enhance the effectiveness of IRS enforcement measures and encourage voluntary compliance.

Proposal

This proposal would create a comprehensive financial account information reporting regime. Financial institutions would report data on financial accounts in an information return. The annual return will report gross inflows and outflows with a breakdown for physical cash, transactions with a foreign account, and transfers to and from another account with the same owner. This requirement would apply to all business and personal accounts from financial institutions, including bank, loan, and investment accounts,[2] with the exception of accounts below a low de minimis gross flow threshold of $600 or fair market value of $600.

Other accounts with characteristics similar to financial institution accounts will be covered under this information reporting regime. In particular, payment settlement entities would collect Taxpayer Identification Numbers (TINs) and file a revised Form 1099-K expanded to all payee accounts (subject to the same de minimis threshold), reporting not only gross receipts but also gross purchases, physical cash, as well as payments to and from foreign accounts, and transfer inflows and outflows.

Similar reporting requirements would apply to crypto asset exchanges and custodians. Separately, reporting requirements would apply in cases in which taxpayers buy crypto assets

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[1] Computed from individual income tax business income, small corporations, and self-employment tax components.
[2] Current income reporting by financial institutions would be expanded to all entities, including certain corporations. Interest payments would be included in the loan account reporting. Transferee information would be reported for all real estate transactions on Form 1099-S.

from one broker and then transfer the crypto assets to another broker, and businesses that receive crypto assets in transactions with a fair market value of more than $10,000 would have to report such transactions.

The Secretary would be given broad authority to issue regulations necessary to implement this proposal.

The proposal would be effective for tax years beginning after December 31, 2022.