

Communications & Liaison
STAKEHOLDER LIAISON

**1) Form 1099-K Reporting on 2022
Tax Returns**


**2) Tax Professional Data Breaches
and How Tax Pros Can Protect
Themselves**

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**Form 1099-K, Payment
Card and Third Party
Network Transactions -
Threshold Change**



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Understanding your Form 1099-K



Form 1099-K, Payment Card and Third Party Network Transactions, is an IRS information return used to report certain payment transactions.

- You should receive Form 1099-K from a payment settlement entity by January 31st if, in the prior calendar year, you received payment:
 - Through a payment card transaction, for example, through debit cards, credit cards, prepaid cards, gift cards, etc., and/or
 - In settlement of third party network transaction above the minimum reporting threshold for the provision of goods or services.

If you received payments from the same payor that include both payment card and third party network transactions, you should receive a separate Form 1099-K reporting the gross amount from each type.

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Definitions

Payment settlement entity (PSE)

- In the case of a payment card transaction, the bank or other organization that has the contractual obligation to make payment to participating payees in settlement of payment card transactions, and in the case of a third party network transaction, the third party settlement organization.

Third party settlement organization (TPSO)

- Central organization that has the contractual obligation to make payments to participating payees (such as merchants) of third party network transactions.

Third party network transaction



- Any transaction that is settled through a third party payment network.

Third party payment network is any agreement or arrangement that provides:

- Guarantee of payment to the persons providing goods or services (participating payees) in settlement of transactions with purchasers pursuant to the agreement or arrangement.

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Form 1099-K Minimum Reporting Threshold for Third Party Payment Network Transactions

For returns for calendar years prior to 2022:

- Aggregate amount of payments for goods and services exceeds \$20,000, **AND**
- More than 200 such transactions



For returns for calendar years **2022 forward:**

- Aggregate amount of payments for goods and services exceeds \$600
- This is determined without regard to the number of transactions

Does not include receipt of payments from family or friends for gifts, shared trips, reimbursements, etc.

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Income Reporting and Recordkeeping

- You must report all taxable income you receive on your income tax return.
- Your business's books and records should reflect your business income including amounts that may be reported on Form 1099-K.

In most cases, your business income will be in the form of:

- Cash
- Checks and Electronic Funds Transfers (EFTs)
- Debit/credit card payments*
- Payments received through third party network transactions*

*Generally reported on Form 1099-K

Form 1099-K is used to report the gross amount of total reportable transactions for the calendar year without regard to any adjustments for credits, cash equivalents, discount amounts, fees, refunded amounts, or any other amounts.

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An IRS reminder that money received through crowdfunding may be taxable.



irs.gov/taxtips


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Some things to know about crowdfunding and taxes

English | [Español](#) | [中文\(简体\)](#)

Topics in the News

News Releases

Multimedia Center

Tax Relief in Disaster Situations

Inflation Reduction Act

Tax Reform

Taxpayer First Act

Tax Scams/Consumer Alerts

The Tax Gap

Free Choice

Tax Tip 2022-120, August 8, 2022

Crowdfunding is a popular way to raise money online. People often use crowdfunding to fundraise for a business, for charity, or for gifts. It's important to know that money raised through crowdfunding may be taxable.

Some money raised through crowdfunding may be considered a gift.



Under federal tax law, gross income includes all income from any source, unless it's excluded from gross income by law. In most cases, gifts aren't included in the gross income of the person receiving the gift. Here's what people involved in crowdfunding should know:

- If a crowdfunding organizer is raising money on behalf of others, the money may not be included in the organizer's gross income, as long as the organizer gives the money to the person for whom they organized the crowdfunding campaign.
- If people donate to a crowdfunding campaign out of generosity and without expecting anything in return, the donations are gifts. Therefore, they will not be included in the gross income of the person for whom the campaign was organized.
- However, not all contributions to crowdfunding campaigns are gifts and may be taxable.
- When employers give to crowdfunding campaigns for an employee, those contributions are generally included in the employee's gross income.

Taxpayers may want to consult a trusted tax pro for information and advice regarding how to treat amounts received from crowdfunding campaigns.

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IRS.gov resources

<p>Understanding Your 1099-K</p> <p>Understand Form 1099-K, Payment Card and Third Party Network Transactions, and what you should do if you receive one.</p> <p>About Form 1099-K, Payment Card and Third Party Network Transactions</p> <p>Includes recent updates, related forms, and instructions on how to file.</p>	<p>General FAQs on Payment Card and Third Party Network Transactions</p> <p>General frequently asked questions on Payment Card and Third Party Network Transactions.</p> <p>Publication 334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)</p> <p>Contains general information about the federal tax laws that apply to small business owners.</p>
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Tax Professional Data Breaches and How Tax Pros Can Protect Themselves

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Objectives

- Identify spear-phishing emails that target tax professionals**
- Report tax related spear-phishing scams**
- Protect yourself from becoming a victim of a phishing scam and data breach; and**
- Report a tax professional data breach**

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Spear-phishing Scams Targeting Tax Professionals

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Current Data Breach Statistics

The recent Verizon Data Breach Investigations Report (DBIR) found:



**“82% of breaches involved a human element” (e.g.,
Phishing, Misuse, or Error)**

Phishing was one of the four main entry points into an organization

The recent Internet Crime Complaint Center (IC3) report **Phishing/Vishing/Smishing/Pharming** was listed as a **Top 5 Crime Type** reported over the last five (5) years

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Common Schemes

The most common schemes that target tax professionals are:

- spear phishing**
- ransomware**
- unauthorized access**

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Phishing Lifecycle


A Lure: enticing email content

A Hook: an email-based exploit (e.g., a phishing URL or malicious attachment)

A Catch: a transaction conducted by an actor following a successful attempt

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IRS-themed Phishing Email

From: IRSOffice <no-reply@mailadmin@irsnet360.com>
Date: November 23, 2021 at 6:29:11 AM CST
To:
Subject: Re: You are eligible to receive a tax status on Nov 23, 12:29:02 pm.



Third Round of Economic Impact Payments Status Available.


After the last annual calculations of your fiscal activity we have determined that you are eligible to receive a payment of \$552.00

We understand the challenges your business is facing due to the massive disruption caused by the Coronavirus (COVID-19) pandemic and want to provide you with funds to help you weather these difficult times.

Please click below to submit your application.

[Get Started](#)

Questions? We're here to help. Call us at 1-800-659-2955 | TTY/TDD: 1-800-877-8339 Office of Disaster Assistance U.S. Small Business Administration



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Spear Phishing

- Targets a specific audience
- Appears as a familiar or trusted contact
 - Fellow tax practitioner
 - Tax software provider
 - Potential or current client
- The goal is to convince you to open a URL or download an attachment

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Common Spear Phishing Scams

- “New client” scam
- Account takeover
- Business email compromise (BEC) / business email spoofing (BES) scams

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“New Client” Scam 1st Email

From: [REMOVED]
To: [TAX PREPARER]
Sent: Thu, Apr 21, 2022 3:06 pm
Subject: Extension Client Intake



Good Morning,

I am [REMOVED], married, father of three teenage boys and a business owner. My family and I have lagged behind in filing our taxes and I am hoping you are not at capacity and willing to take on a new client? I have all by books and forms in place, don't owe taxes and usually make estimated tax payments.

Please write back if you are open to new tax clients and how to proceed. Regards[REMOVED]

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“New Client” Scam 2nd Email

From: [REMOVED]
To: [TAX PREPARER]
Sent: Wed, May 4, 2022 6:14 am
Subject: Re: Extension Client Intake

Hi [TAX PREPARER], Sorry for the late response, things haven't been going as planned lately. I won't want to bore you with personal issues. As for my taxes, I usually don't owe taxes, applied my prior year refund and also made estimated tax payments to cushion effects of situations like these.

**[REMOVED]_1040_ScanCopy.pdf*

*<https://example[.]example/file/[REMOVED]>**

Above is a secure and SSL excerpted copy of my prior year returns for your perusal. Kindly review and advise on way forward... I look forward to talking with you. Regards[REMOVED]

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Account Takeover

Account takeovers are often the result of spear phishing emails that target tax professionals

Account takeovers are a common source of data breaches, leading to fraudulent tax filings for individuals and for businesses


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Account Takeover (cont.)

An official website of the United States Government



Home / News / News Releases / Latest spearphishing scams target tax professionals

Latest spearphishing scams target tax professionals

English | [Español](#) | [中文\(简体\)](#)

IR-2022-36, February 16, 2022

WASHINGTON — With tax season in full swing, the Internal Revenue Service, state tax agencies and tax industry today warned tax professionals of new email scams that attempt to steal their tax software preparation credentials.

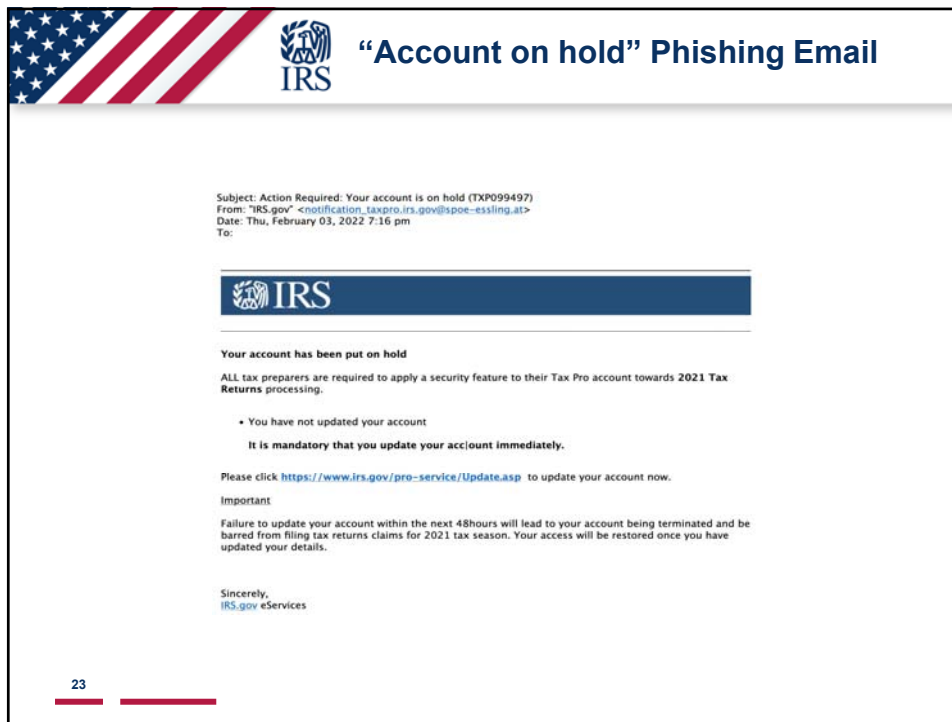
The Security Summit partners warned these scams serve as a reminder that [tax professionals](#) remain prime targets for thieves. These thieves try to steal client data and tax preparers' identities in an attempt to file fraudulent tax returns for refunds.

The latest phishing email uses the IRS logo and a variety of subject lines such as "Action Required: Your account has now been put on hold." The IRS has observed similar bogus emails that claim to be from a "tax preparation application provider." One such variation offers an "unusual activity report" and a solution link for the recipient to restore their account.

"Scams continue to evolve, and this one is especially sinister since it threatens tax professional's accounts," said IRS.

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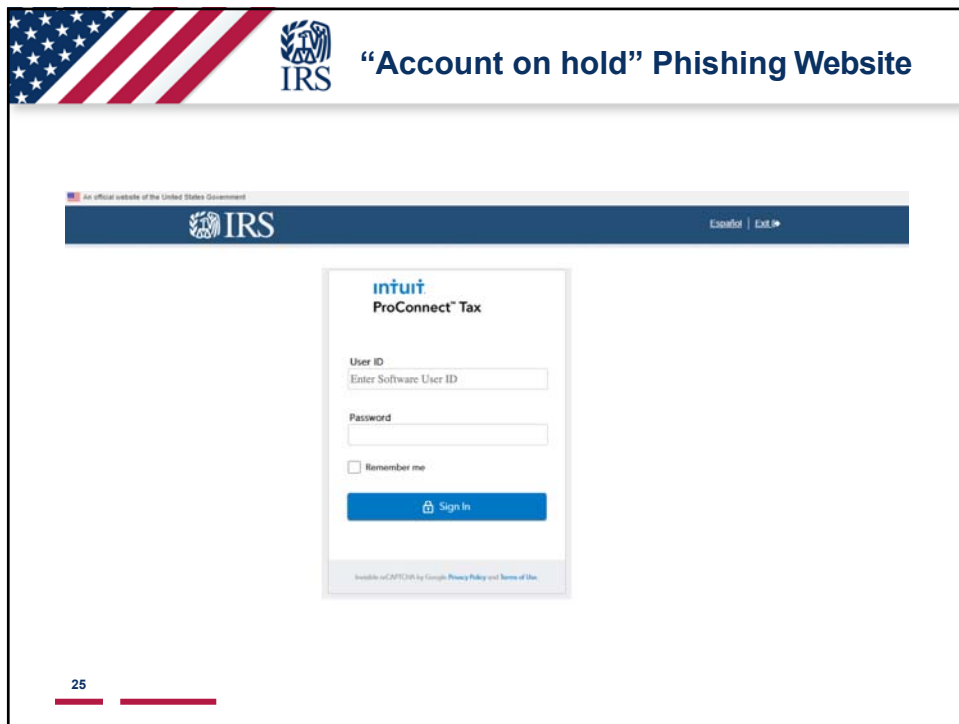
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BEC versus BES

Business email compromise (BEC)

Hijacking an email account or an email server to intercept business transactions and redirect payments

Business email spoofing (BES)

Sending spoofed email from an external account pretending to be a company executive authorizing an irregular payment transaction

[Source: Dell SecureWorks]

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**BEC/BES variants**

Direct Deposit

Employment

Fake Invoice

Gift Card



Title/Escrow

Wire transfer

W2

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**BEC/BES Direct Deposit**

From: [REMOVED] ceo.mail0110@gmail.com

Sent: Thursday, May 19, 2022, 3:45 PM

To: [REMOVED]

Subject: REQUEST!!!!

Hello [REMOVED],



I want you to update my new banking information before the next payroll is completed. What details will you need?

Regards

[REMOVED]

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BEC/BES Gift Card (Tax preparer EAC)

From: [TAX PREPARER]

Subject: Help & Favor !!! [TAX PREPARER]



Date: August 16, 2018 at 1:24:05 PM CDT

How are you? I need a favor from you.

I need to get an iTunes gift card for my Niece, Its her birthday but i can't do this now because I'm currently traveling.Can you get it from any store around you? I'll pay back as soon as i am back. Kindly let me know if you can handle this.

²⁹
~~[TAX PREPARER]~~

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BEC/BES W2

From: [REMOVED]

Date: Fri, Feb 11, 2022 at 8:19 AM

Subject: W2 review

To: [REMOVED]

[REMOVED]

Kindly send me the W-2's, copies and earning summaries for all employees 2021 for a quick review. It should be sent in PDF format

Thanks [REMOVED]

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~~_____~~

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Ransomware



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Unauthorized Access



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Deploy the “Security Six”
Protections

1. Anti-virus software
2. Firewalls
3. Two-factor authentication
4. Backup software/services
5. Drive encryption
6. Virtual Private Network (VPN)

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Signs of Client Data Theft

Client e-filed returns begin to reject



Clients who haven't filed tax returns begin to receive authentication letters (5071C, 4883C, 5747C) from the IRS

Clients who haven't filed tax returns receive refunds



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Signs of Client Data Theft – cont.



Clients/Practitioners receive tax transcripts that they did not request

Clients who created an IRS Online Services account are notified that their account was accessed or disabled

Another variation: Clients receive notice that an account was created in their names

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Reporting

IRS, Treasury and/or tax-related phishing scams:

Please send full email headers to phishing@irs.gov

If you click on a nefarious link, download a document, etc.: Contact Your Tax Software Provider

Tax preparers who experienced a data breach:



Contact Stakeholder Liaison (SL): (www.irs.gov search “Stakeholder Liaison”)

TIGTA.gov

FTC.gov or IdentityTheft.gov

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 **Protect Your Business**

**Publication 4557(*Safeguarding Taxpayer Data*)
at IRS.gov**

***Small Business Information Security – The
Fundamentals* at NIST.gov**

Subscribe to e-News for Tax Professionals

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**Creating a Written Information Security Plan
for your Tax & Accounting Practice**




IRS Publication 5708

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
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Creating a Written Information Security Plan (WISP) for your Tax & Accounting Practice


This document was prepared by the Security Summit, a partnership of the Internal Revenue Service, state tax agencies, private-sector tax groups as well as tax professionals. The mission of the Security Summit is to fight identity theft and tax refund fraud. *


This document is intended to provide sample information and to help tax professionals, particularly smaller practices, develop a Written Information Security Plan or WISP. It is not an exhaustive discussion of everything related to WISPs and it is not intended to replace your own research, to create reliance or serve as a substitute for developing your own plan based upon the specific needs and requirements of your business or firm. A written information security plan is just one part of what tax professionals need to protect their clients and themselves. Given the rapidly evolving nature of threats, the Summit also strongly encourages tax professionals to consult with technical experts to help with security issues and safeguard their systems.

There are many aspects to running a successful business in the tax preparation industry, including reviewing tax law changes, learning software updates, and managing and training staff. Creating a Written Information Security Plan or WISP is an often overlooked but critical component. Not only is a WISP essential for your business and a good business practice, the law requires you to have one. For many tax professionals, knowing where to start when developing a WISP is difficult. This guide provides multiple considerations necessary to create a security plan to protect your business, and your clients and comply with the law.



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WISP - Outline

The bare essentials of a Written Information Security Plan are outlined below. Be sure you incorporate all the required elements in your plan, but scale the comprehensiveness to your firm's size and type of operation. The elements in the outline are there to provide your firm a narrower scope of purpose and define the limitations the document is meant to cover. Therefore, many elements also provide your firm with a level of basic legal protections in the event of a data breach incident. For a detailed explanation of each section, please review the detailed outline provided in this document.

- I. **Define the WISP objectives, purpose, and scope**
- II. **Identify responsible individuals**
 - a. List individuals who will coordinate the security programs as well as responsible persons.
 - b. List authorized users at your firm, their data access levels, and responsibilities.
- III. **Assess Risks**
 - a. Identify Risks
 - List types of information your office handles
 - List potential areas for data loss (internal and external)
 - Outline procedures to monitor and test risks
- IV. **Inventory Hardware**
 - a. List description and physical location of each item
 - b. Record types of information stored or processed by each item



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Resources

IRS.gov websites:

- www.irs.gov/newsroom/irs2goapp
- www.irs.gov/ProtectYourClients
- www.irs.gov/identity-theft-central
- www.irs.gov/securitysummit

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