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Five Facts To Know About E-Commerce and Tax Filing

Thanks to newer e-commerce services like Venmo and Paypal, experts say many tax filers are headed for a nightmare scenario with the IRS.

LOS ANGELES, CALIFORNIA, USA, June 3, 2021 /EINPresswire.com/ -- Particularly popular among younger generations of business owners, the apps and those like them come with their own unique set of tax codes, which have grown increasingly complicated over the years. Many filers are ignorant to these rules and the changes to them, said Armine Alajian, a Certified Public Accountant and founder of Alajian Group in Los Angeles. Some even seem to think the services are tax-exempt.

“I’ve been surprised by the number of people I’ve spoken to who assumed PayPal was some exception to the rule that allowed for some accounting shortcuts. They’re shocked to find that’s not the case,” said Alajian.

Summarized are five facts filers should know, specific to issues of e-commerce.

1. E-commerce functions taxwise like a bank account…

Transactions through the service and others like it must be reported like you would money from a bank account, Alajian notes.

“In fact, these kinds of e-commerce companies might even make things a little more complicated, because they can be connected to your bank account, credit card, or just about anything that allows for the transfer of cash,” said Alajian. “Money flows in and flows out from all over.”

2. …but with a few more steps.

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3. You might actually be paying double what you need to.

If not reconciled properly, Alajian said, income and expenses can be understated, and you may even have duplicate transactions.

“Similar providers like Venmo, CashApp, Square can work in a similar way, but you can’t lump them together. They need to be treated as separate bank accounts and individual transactions need to be recorded,” said Alajian.

4. Stripe isn’t an exception to the rules.

Businesses use merchant processors like Stripe as an intermediary to collect from customers, and while the business no doubt paid Stripe for the service, many business owners are surprised to find they’re treated as the customer for accounting purposes.

“Many people skip this part and record the money from Stripe as income,” Alajian said. “That means they’re not getting the right data for business decision-making purposes, and they’re not reporting the proper breakdown on taxes.”

5. Don’t put it off. You should report income through e-commerce monthly.

Individual filers may not need to be so meticulous, Alajian said, but business owners relying on these apps certainly do.

“It’s key to accounting and needs to be done monthly. The balance of your bank account needs to reflect the statement from the bank, for example, and if it doesn’t, then data is missing or duplicated,” Alajian said. “This process will ensure what you have on your books ties to the source.”

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