

Using 1099K Data for Discovery and Collections

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Using Federal 1099-K Data in Discovery

Filing Numbers

- Tax Year 2011 – 185,444 1099-K records
- Tax Year 2012 – 121,378 1099-K records

Known Issues

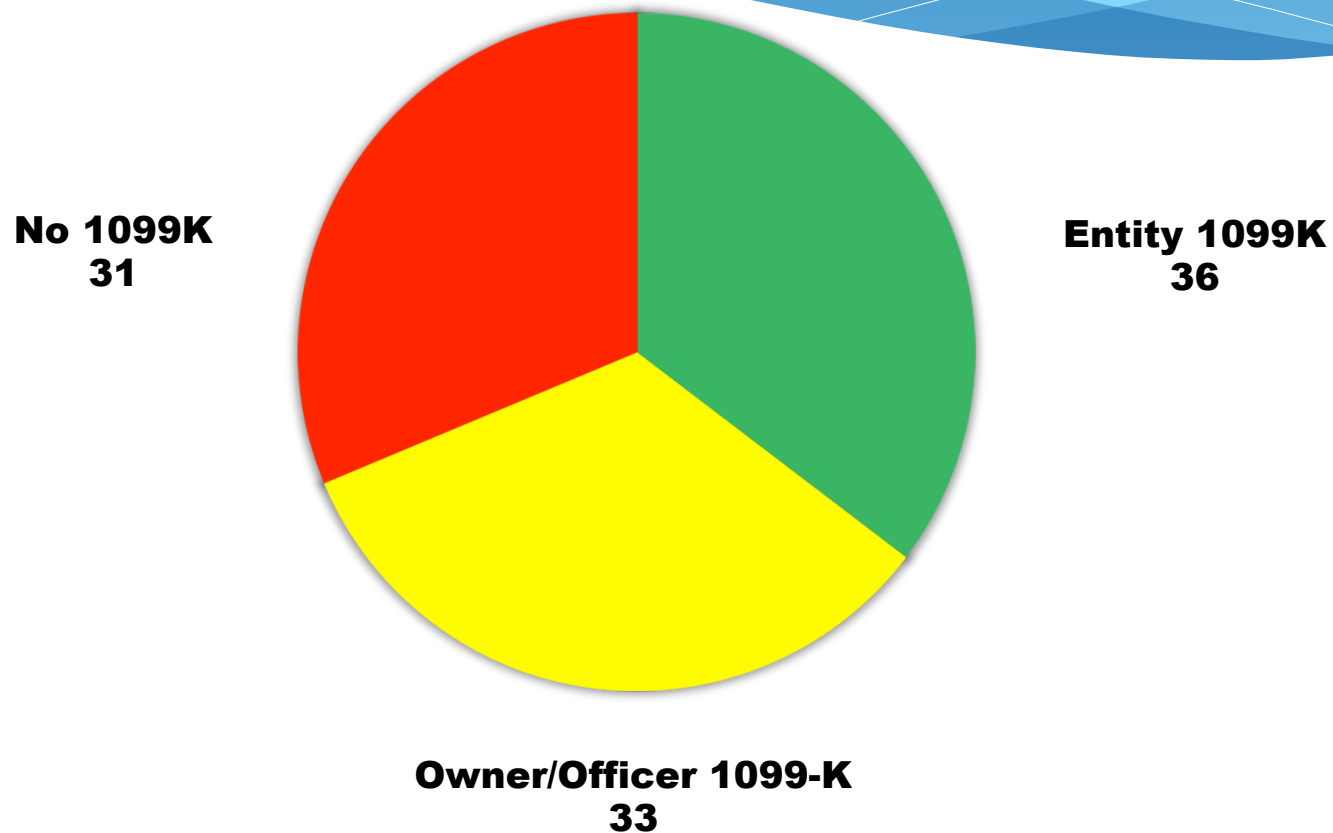
- Gross sales overstatement
- Direct Matching
 - Multiple locations
 - Business is sold
 - E-commerce business anonymity
 - Derived FTI

Direct Matching Issues

Background:

- Reviewed 100 e-commerce leads that that we associate to a business in our tax system
- Three Distinct Groups
 - Entity 1099-K Match
 - Owner/Officer 1099-K Match
 - No Associated 1099-K

Minnesota E-commerce Analysis



1099-K Discovery

Corporate Income Tax Approach

Non-Filer:

- 2011 1099-K data
 - Less than 10% were selected for additional review
 - 2% for a nexus review
 - 6% for other audit potential
 - Large portion of leads were ceased businesses
- 2012 1099-K data
 - Use 2011 lead closures reasons
 - Potentially creating different pools of leads based on receipts and sample

1099-K Discovery

Corporate Income Tax Approach

Underreporting:

- 2011 1099-K data
 - About 12% were selected for additional review
 - Large portion of leads were ceased businesses
 - Adjusted for known issues
 - Ex: Restaurant decrease by 25%
- 2012 1099-K data
 - Continue to adjust for credit/cash ratios
 - Research has said that the percentage of cash sales at POS systems is expected to drop to 23% by 2017.

1099-K Discovery Sales & Use Tax Approach

Finished Development in November 2014

- Approach was similar to PA
- Narrowed results to specific industries
 - Removed 25% from gross receipts to account for tips, returns, sales tax.

1099-K Discovery Sales & Use Tax Approach

Our internal zapper team reviewed the 1099-K results and determined:

- Identified almost 400 encouraging leads
- Over 100 of which have 1099-K sales greater than what was reported
 - Potential reasons:
 - Multiple locations
 - Business owner/officer not up to date
 - Error in 1099-K data

1099-K Discovery Review

We saw a 34% decrease in the number of 1099-K's received from 2011 to 2012.

We are finding decent cases to pursue but we still need time to further refine our results.

The Sales Tax audit program is fairly new and the Corporate Tax audit program needs to be refined before an additional year is run in Discovery.

Collections and 1099K Data

Derreck Wyatt
Revenue Collection Officer



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Locating the Merchant Account

- 1099K data reported
- View bank statements
- Issuing subpoenas
- Copy of the merchant agreement
- Card terminal



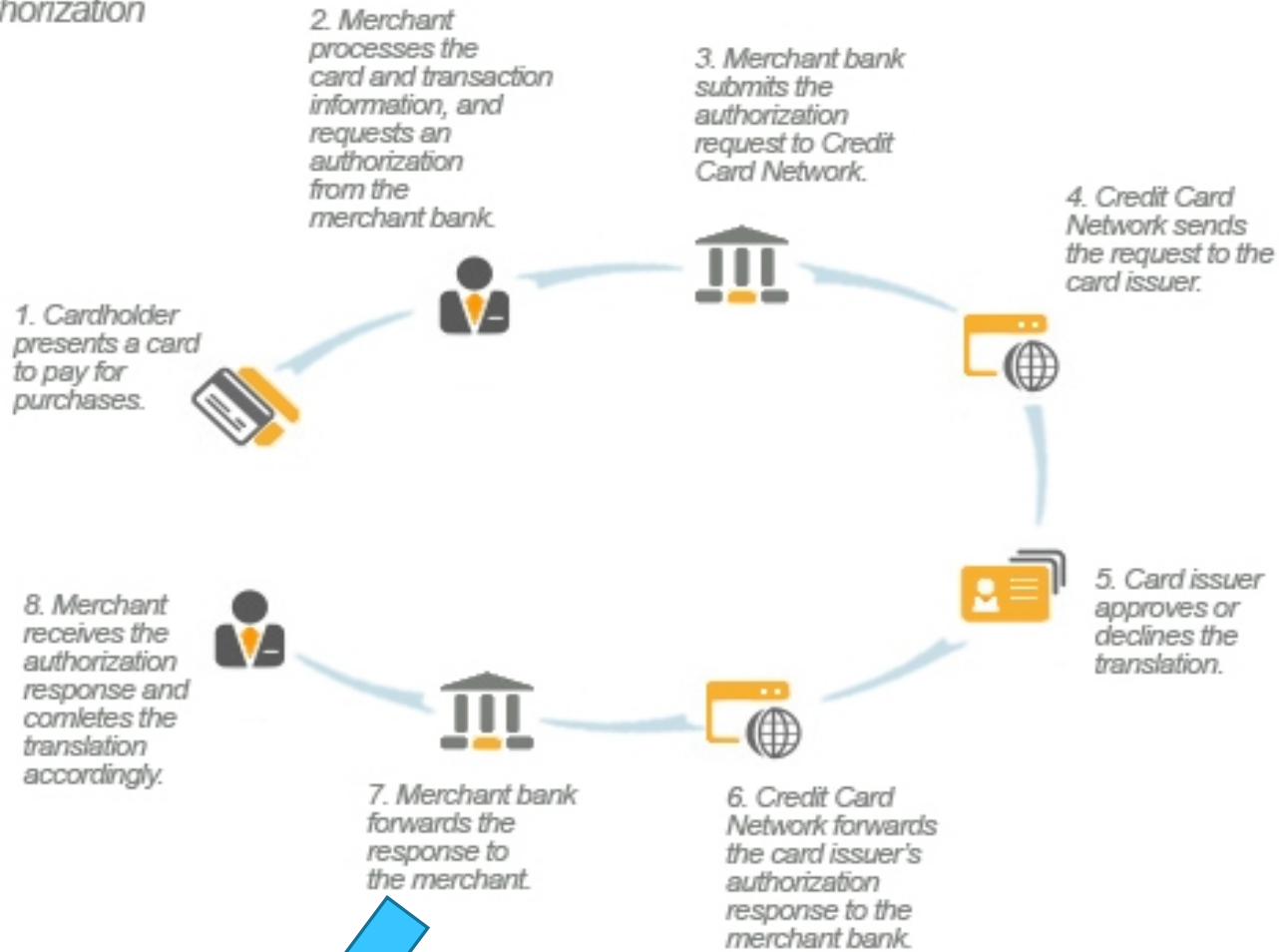
Issuing a levy to the Merchant Service Provider

- Levies issued by all Revenue Collection Officers
- Levies issued to the Merchant Service Provider
- Levies issued under MN Statute 270c.68 or 270c.67
 - ❑ 270C.68 continuous levy
 - ❑ 270C.67 one-time levy



How the Levy Works

Authorization



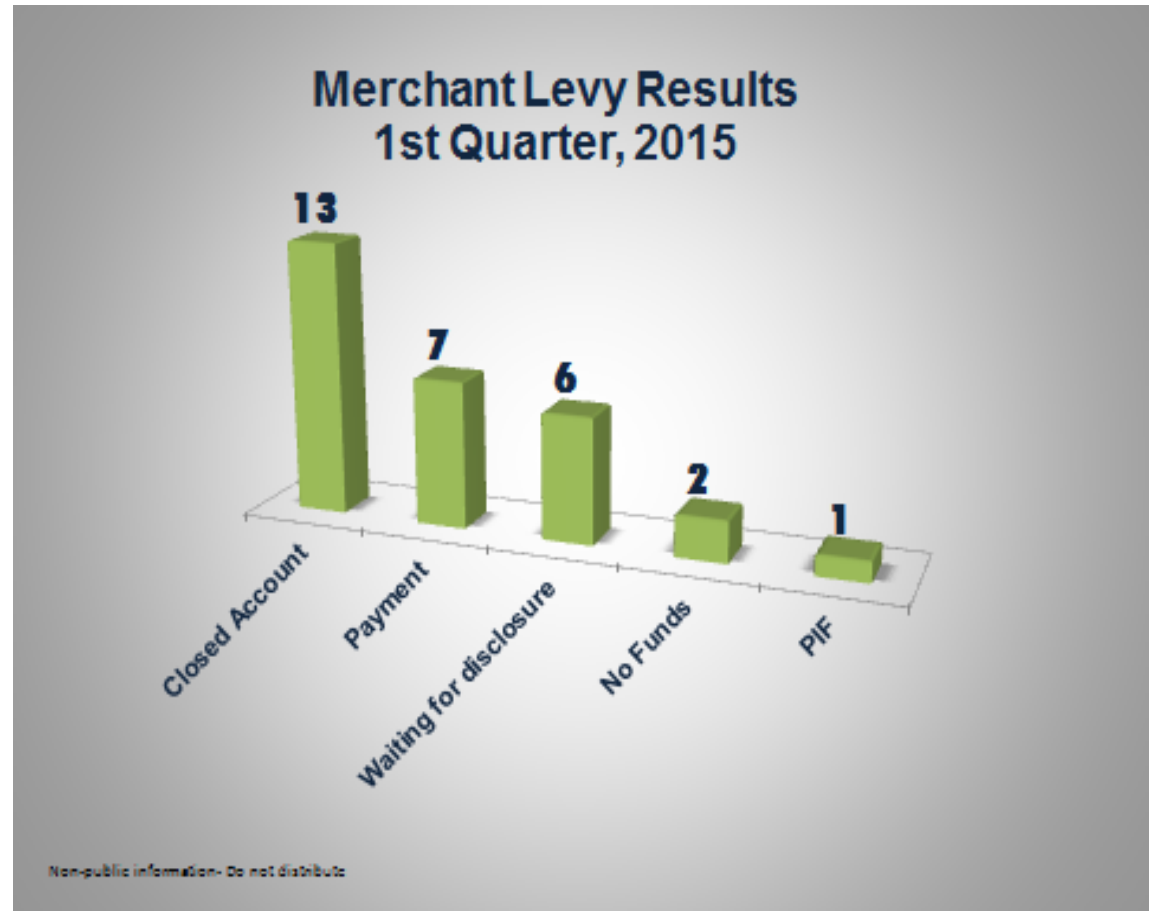
Collector Discretion

- Prior to a 1099K levy
- Impact on the business
- Outcomes after the levy



Results

- 29 levies issued
- 13 account closed
- 7 receiving payment
- 6 Outstanding
- 2 No funds
- 1 Paid in full



Questions

