ELECTRONIC TRANSACTIONS ASSOCIATION
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January 19, 2024

The Honorable Jason Smith
Chairman
House Committee on Ways & Means
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
House Committee on Ways & Means
Washington, DC 20515

Dear Chairman Smith and Ranking Member Neal:

On behalf of the Electronic Transactions Association (ETA), I am pleased to share our views and support the *Tax Relief for American Families and Workers Act of 2024*. We applaud your commitment to developing a bipartisan tax package to support American families and small businesses.

In addition, we urge the inclusion of raising the Form 1099-K reporting threshold before final adoption. By addressing this critical issue, Congress can empower the payments industry to continue driving innovation, economic growth, and job creation in the United States.

ETA is the world's leading advocacy and trade association for the payments industry. Our members span the breadth of significant payments and fintech companies, from the largest incumbent players to the emerging disruptors in the U.S and in more than a dozen countries around the world. ETA members make commerce possible by processing approximately $44 trillion annually in purchases worldwide and deploying payments innovation to merchants and consumers.

<u>Provisions ETA Supports:</u>

Deduction for research and experimental expenditures

ETA supports the ability of businesses to immediately deduct their research and development (R&D) expenses. Our member companies rely on R&D to drive innovation, improve security, enhance user experience, and meet regulatory obligations. For example, ETA member companies employ R&D in the following areas:

- **Developing cutting-edge solutions and products:** R&D activities enable payment companies to innovate and create new payment solutions, products, and services. This can involve researching and developing new payment technologies, such as contactless payments, mobile wallets, or biometric authentication methods.

- **Enhancing security and fraud prevention:** Payment companies invest heavily in R&D to enhance security measures and prevent fraudulent activities. They conduct research on encryption techniques, fraud detection algorithms, and authentication protocols to ensure secure transactions and protect customer data.

- **Optimizing user experience:** R&D efforts are directed towards improving user experience and interface design in payment systems. This helps payment companies deliver seamless and convenient payment experiences to customers.

- **Navigating regulatory complexities:** Payment companies need to comply with various regulations and standards in the financial industry. R&D is utilized to ensure compliance with evolving regulations, such as anti-money laundering (AML) and know your customer (KYC) requirements.

Immediate R&D expensing serves as a powerful incentive for payment companies to invest in innovation and technological advancements. By allowing full deduction in the same year expenses are incurred, this policy encourages critical R&D investments. However, the expiration of this provision has forced businesses to amortize R&D over 15 years, starting from 2022 tax returns. This not only makes the U.S. an outlier amongst developed nations but also hinders our economic competitiveness. Immediate R&D expensing enables payment companies to compete globally, deliver cutting-edge solutions, and provide fast, secure, and seamless payment experiences to customers.

Extension of allowance for depreciation, amortization, or depletion in determining the limitation on business interest

ETA supports reinstating the earnings before interest, tax, depreciation, and amortization (EBITDA) standard for determining business interest deductions in the proposal.

Adopting the stricter earnings before interest and tax (EBIT) standard could subject payment companies to higher taxes and increased financing costs, limiting their flexibility and liquidity. This standard disproportionately impacts capital-intensive companies, making growth initiatives more expensive. The resulting lack of flexibility and liquidity creates challenges in securing capital, hiring new employees, and expanding operations, particularly in a period of rising interest rates.

These challenges could hamper payment companies' ability to raise capital, expand operations, and invest in R&D, ultimately impacting industry innovation. Given the current economic instability and rising interest rates, it's crucial to address these concerns and prevent Section 163(j) from unreasonably restricting businesses' growth and job creation in the U.S.

Provision ETA Urges to be Included:

Raising the IRS Form 1099-K threshold

ETA supports raising the IRS Form 1099-K threshold for all entities. We agree with the bipartisan consensus on periodically updating filing thresholds for tax information reporting forms to balance effective tax administration and reduce taxpayer burden.

We are encouraged that the proposed legislation raises the threshold for issuing 1099-NEC and 1099-MISC forms, requiring them only for payments exceeding $1,000 annually, up from the previous $600 limit.

However, we believe the current $600 threshold for 1099-K forms, often including non-taxable payments, remains too low and requires adjustments similar to those proposed for other forms. If passed in its current form, the bill would set a lower threshold for 1099-K reports compared to other income types.

Historically, platform sellers and users of payment apps were subject to a $20,000 and 200 transaction threshold for 1099-K forms until 2023. Without legislative action, the threshold for the 2024 tax year will

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drop to $600 and a single transaction, potentially generating over 40 million 1099-K forms next tax season, as estimated by the GAO[1].

Therefore, we urge Congress to raise the 1099-K dollar and transaction thresholds, aligning them with the proposed changes for other forms. Providing a legislative solution would provide millions of Americans with certainty and clarity rather than the status quo of a patchwork of IRS delays.

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ETA strongly supports the provisions outlined above. Thank you for the opportunity to weigh in on these important issues. If you have any questions, please contact me or ETA's Executive Vice President, Scott Talbott, at stalbott@electran.org.

Sincerely,

Jeff Patchen
Director of Government Affairs
Electronic Transactions Association

[1] GAO-24-107095