



QPCA for Merchants

Providing Convenience and Security

When your commercial customers (businesses or government agencies) pay you for services, they may be required to report those payments to the Internal Revenue Service (IRS) on Form 1099-MISC (Miscellaneous). To report properly, your customers need your taxpayer identification number (TIN), and the law requires that you provide it to those customers who need it for IRS reporting.

The Qualified Payment Card Agent (QPCA) program can assist you in providing this information to your customers conveniently and securely. QPCA also shields you and your commercial customers from backup withholding and helps your customers comply with IRS reporting requirements.

NOTE: If you are a merchant that provides merchandise only, or if you are not a U.S.-based entity, this program does not apply to you and you do not need to take any action.

Program Overview

Your commercial customers are required to report payments made to you if the payment was for services (as opposed to merchandise) and the annual aggregate total of all transactions with your business is at least \$600. To report, your customers need your taxpayer identification number (TIN), along with your legal business name, mailing address, and corporate status (e.g., sole proprietor, partnership, corporation). If your customer does not have your TIN at the time of the transaction, the law states that the customer must backup withhold 28 percent of the payment.

These laws make it difficult for commercial customers to be in compliance with IRS reporting requirements. To make it easier for your customers to get the information they need, and to relieve you of the need to provide your information to multiple customers, the IRS has issued new regulations that permit Visa to assume the duties that are usually the responsibility of your customer.

Under the QPCA program*, Visa will validate your legal business name and TIN with the IRS and provide the information in a secure way to your customers who need it to file Forms 1099-MISC with the IRS.

* *IMPORTANT NOTE: The QPCA program has not yet been implemented. Visa has applied to the IRS for QPCA certification and is awaiting IRS determination. Once QPCA certification has been granted, Visa-accepting merchants and Visa commercial cardholders will enjoy the full benefits and protections of the QPCA program.*



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Benefits of QPCA

QPCA provides significant benefits to you and your commercial customers:

- You will not have to provide your information to multiple customers
- Your customers will have the information they need for IRS reporting
- You and your customers will be shielded from backup withholding

Most importantly, if you are a service merchant, you may see increased business from commercial customers, since QPCA assures them they will have the information they need for IRS reporting.

What your customers need

To report payments on IRS Form 1099-MISC, your commercial customers need the following information:

- Your legal business name
- Your business or corporate address
- Your corporate status (e.g., sole proprietor, partnership, corporation)
- Your taxpayer identification number

Your information will not be shared with any other Visa cardholders—only with your customers. The privacy of your information will be protected. Visa will provide the information to your customers on a secure website, and your customers are required by law to maintain the confidentiality of your information and to use it only for the purposes of backup withholding and filing information returns with the IRS.

How the QPCA program works

Currently, Visa obtains your TIN and other information from your merchant bank in accordance with Visa Operating Regulations and provides it to your customers for IRS reporting. Under the QPCA program, Visa will continue to provide these services; in addition, Visa will validate your name and TIN with the IRS to ensure they are accurate before providing them to your customers (see *How Visa validates your TIN* on page 4).

Your customers will receive a quarterly report showing the legal business name, address, corporate status, and TIN of each merchant with which they did business during the past quarter. The report also tells your customers whether Visa was able to validate your name and TIN with the IRS. If the validation was successful, your customers are assured they have correct information for IRS reporting.

You will automatically be included in the QPCA program unless you decline to participate (“opt out”) by returning a form to Visa. If you decide to opt out, it will be noted on the quarterly report to your customers.

If Visa is unable to validate your legal name and TIN with the IRS, or if you decide to opt out, your customers will need to contact you directly for your information. If they cannot obtain it within a two-month period after receiving the report, they are required to backup withhold on any future transactions.

How to tell if you are a “service” merchant

Payments for services are reportable to the IRS, whereas payments for merchandise are not. However, sometimes the distinction between services and merchandise is not obvious. To help your customers determine whether payment card transactions are reportable, the IRS allows them to use the Merchant Category Code (MCC).

Each merchant is assigned one or more Merchant Category Codes at the time it is set up to accept Visa payments. The MCC is a four-digit code used by the payment card industry to classify merchants into market segments. To help commercial customers determine which payment card transactions are reportable, the IRS classifies MCCs into two groups—reportable and non-reportable—depending on whether a



merchant primarily furnishes services (for which payments are reportable) or merchandise (for which payments do not have to be reported).

Visa has published a document, called *Merchant Category Codes for IRS Form 1099-MISC Reporting*, that tells which MCCs are reportable and which are non-reportable. If your MCC is reportable, then your commercial customers will most likely need to report payments made to you if the annual aggregate total was more than \$600. You may download this document from the Visa website.

About Form 1099-MISC

If you are a merchant that provides services, you probably receive Form 1099-MISC payee statements in the mail from your commercial customers each year. Your customers are required to file Form 1099-MISC if the annual aggregate amount paid to you for services is more than \$600.

To accurately file Forms 1099-MISC, your customers need your legal business name (which may be different from your doing-business-as name), taxpayer identification number (TIN), complete mailing address, corporate status (for example, sole proprietor, partnership, corporation), and the amount paid to you.

Filing Forms 1099-MISC is a two part process. First, your customers are required to send you a payee statement (Copy B of the Form 1099-MISC) by January 31 of the year following the year payments were made. Second, your customers must file Copy A with the IRS by the last day of February, or the last day of March if filing electronically.

The IRS can impose penalties on your customer for failing to report or for reporting incorrectly. The IRS can also impose penalties on you, the merchant, for failing to provide your TIN to your customers who need it for Form 1099-MISC reporting.

If you receive a Form 1099-MISC payee statement and your legal name, address, and/or TIN are incorrect, you should notify both your customer and your merchant bank. If the dollar amount is incorrect, you should contact your customer. The customer's telephone number is listed on the Form 1099-MISC.

For additional information about Form 1099-MISC reporting, go to the IRS website at www.irs.gov/forms and do a search on "1099-MISC".

History of Form 1099-MISC reporting

For more than 60 years, the IRS has required businesses, tax-exempt entities, and government agencies to report on Form 1099-MISC when they pay an independent contractor at least \$600 in a calendar year for services. For the past 20 years, the IRS has also required these "payers" to obtain the TIN of the merchant ("payee") before they pay, or else backup withhold a percentage of the payment.

When purchasing cards were created in the 1990s, these existing rules applied. As a result, a customer using a commercial payment card needed the legal business name (not the doing-business-as name), business or corporate mailing address, corporate status, and TIN of any service merchant with which it did business. Since this information is generally not included in the billing statement received by the customer, commercial customers often found it difficult to meet IRS requirements.

To address these issues, Visa began working with the IRS in the mid-1990s to develop new regulations that would ease the burden on Visa commercial cardholders to collect TINs and backup withhold, while relieving merchants of the need to provide their information to multiple customers. The new regulations allow a qualified payment card organization, such as Visa, to solicit, collect, and validate merchant information on the customer's behalf.

The QPCA program offers significant advantages to your commercial customers by facilitating the migration from paper-based payment methods, such as checks, to the more convenient and cost-effective commercial payment products.



About backup withholding

Current tax laws require cardholders (as well as customers paying by cash or check) to obtain a service merchant's TIN at the time of the transaction or withhold 28 percent of the payment. The amount withheld is then deposited with the IRS and the merchant gets a credit at year-end on its tax return. This is called backup withholding. It operates similarly to wage withholding for employees.

Since the payment card system has no withholding function, if backup withholding is required, the customer must make the deposit directly with the IRS. The merchant is paid in full; however, the customer has to pay 28 percent more for the transaction than if it had obtained the merchant's TIN.

The IRS regulations provide the QPCA with a six-month grace period for obtaining a merchant's TIN before backup withholding is required. If the merchant's TIN cannot be validated within that time frame, the customer will be notified and will have an additional two months to solicit the merchant's TIN. If the customer cannot obtain the TIN, it must backup withhold on any future transactions with the merchant.

In the event backup withholding was required and the customer failed to do so at the time of the transaction, the customer must either 1) pay the backup withholding out of its own funds, or 2) get the merchant to execute IRS Form 4669. Form 4669 is an affidavit in which the merchant swears under penalties of perjury that it included the income from the customer on its tax return.

In addition to the liability for the withholding itself, and the penalties for failure to make a timely deposit, a customer who willfully fails to collect or account for the tax may be held liable criminally and be subject to fines or imprisonment.

Under the QPCA program, you and your customers are shielded indefinitely from backup withholding requirements. For more information about backup withholding, consult IRS Publication 1281—*Backup Withholding on Missing and Incorrect Name/TINs*.

How Visa validates your TIN

"TIN Matching" is a service run by the Internal Revenue Service (IRS) in which a payor (customer) can submit a merchant's legal name and taxpayer identification number (TIN) to the IRS, and the IRS will indicate whether or not the legal name/TIN combination matches IRS records. Under the QPCA program, Visa will use the IRS TIN Matching service to validate merchants' legal names/TINs on behalf of their customers.

In the event a merchant's legal name/TIN combination is not found in IRS records, the IRS simply returns a code indicating a non-match; it does not provide a corrected name or TIN. There are two reasons for this: 1) the IRS has no way of knowing whether the problem was with the name or the TIN, or both; and 2) more importantly, it is against the law for the IRS to disclose taxpayer information.

If Visa is unable to validate your legal name and TIN with the IRS, your merchant bank may contact you to request the information again. If your legal name/TIN cannot be validated within a certain time frame, your merchant bank may notify you, and you may need to contact the IRS directly to resolve the problem.

The results of the TIN Matching effort will be provided to your customers in quarterly reports.





Reporting to your customers

Your customers will receive quarterly reports about the status of each merchant with which they have done business during the past quarter. The report will include each merchant's legal name, taxpayer identification number (TIN), complete address, and corporate status (e.g., sole proprietor, partnership, corporation). In addition, the report will include each merchant's status relative to the QPCA program:

- **Qualified** – Merchant's legal name and TIN were validated by the IRS.
- **Non-Qualified** – Merchant's legal name and TIN could not be validated by the IRS.
- **Grace Period** – Visa is attempting to obtain correct Form 1099-MISC information for the merchant and the time period allowed by the IRS for this purpose has not yet expired.
- **Opted Out** – Merchant has declined to participate in the QPCA program.

If a merchant is qualified, it means that Visa has obtained and validated the merchant's legal name and TIN using the IRS TIN Matching service and that the customer should use that information to file its Form 1099-MISC for the merchant. In addition, a qualified merchant is not subject to backup withholding for an indefinite period of time.

If a merchant is non-qualified, it means that the merchant's legal name and TIN could not be successfully validated using the IRS TIN Matching service before the expiration of the grace period. If a customer receives a report that one of its merchants is non-qualified, then the customer must undertake to solicit the legal name/TIN directly from the merchant.

Visa will have a certain period of time in which to solicit a merchant's legal name and TIN, and validate them with the IRS. This is called the "grace period". If a merchant is within the grace period, it means that Visa is attempting to solicit and validate the merchant's legal name and TIN, and that the customer does not need to backup withhold on transactions with this merchant until further notice. If the merchant's legal name and TIN cannot be validated before the grace period runs out, the customer will be notified in a subsequent report that the merchant is non-qualified. At that point, the customer must undertake its own TIN solicitation, and if it cannot obtain the TIN within two months, it must backup withhold on future transactions.

A merchant will be listed as "opted out" on the report if it has indicated that it does not wish to participate in the QPCA program. The customer will have an additional two months following the first notification to solicit the legal name and TIN directly from the merchant. If at the end of the two-month period the customer still does not have an accurate legal name and TIN for the merchant, it is required to backup withhold on any future transactions with that merchant.

Opting out of the QPCA program

As a merchant, you may decline to participate in the QPCA program by returning a form to Visa. If you opt out, you will not qualify for any of the benefits of the QPCA program and you will be responsible for providing your TIN directly to each of your customers who need it for IRS reporting.

For More Information

For more information, visit the Visa website at www.visa.com/qpca or send an email to qpca@visa.com. The website contains links to the complete texts of the IRS regulations and revenue procedures governing QPCA.



Frequently Asked Questions

1. *What is a QPCA?*

A QPCA is a Qualified Payment Card Agent. It is a payment card organization, such as Visa, that has entered into an agreement with the IRS to observe certain standards when assisting merchants and their commercial customers in meeting IRS Form 1099-MISC reporting requirements. Financial institutions and other businesses are not QPCAs.

2. *What does a QPCA do?*

A QPCA performs certain duties that would normally be the responsibility of the customer and the merchant. Specifically, a QPCA acts on behalf of the customer to solicit certain information from the merchant and validate that information with the IRS. The QPCA then provides the information to the customer for reporting on Form 1099-MISC.

3. *What information must I provide?*

Under the QPCA program, you may be asked to provide the following information to your merchant bank:

- Your **legal business name** (the name you use to file your federal income tax returns)
- Your **taxpayer identification number** (the number assigned by the federal government for filing federal income tax returns)
- Your **complete address** (the address you use for filing federal income tax returns)
- Your **corporate status** (e.g., Sole Proprietorship, Partnership, Corporation)

4. *Do I have to provide this information?*

Yes. As part of your application to become a Visa-accepting merchant, you are required to provide your legal name and TIN to your merchant bank. If you are a Visa merchant, your merchant bank probably already has this information on file. The Visa Operating Regulations require that your merchant bank provide this information to Visa upon request.

5. *What if I have already provided this information?*

If you have already provided complete and accurate information to your merchant bank and you wish to participate in the QPCA program, you do not need to take any action.

6. *What if I previously provided this information, but something has changed?*

Anytime your TIN, legal name, address, or corporate status changes, you should notify your merchant bank. For example, if the XYZ Partnership incorporates and become XYZ, Inc., the corporation should inform its merchant bank and provide the new legal name, corporate status, and TIN.

7. *Why do I have to provide my legal name and TIN?*

The IRS uses the legal business name and TIN to match the payments reported by the customer on Form 1099-MISC with your federal income tax return. The legal name and TIN must be the same on both documents (the Form 1099-MISC and your tax return) so the IRS can match them correctly and efficiently.

8. *What is a TIN?*

A TIN is a taxpayer identification number assigned by the federal government to each taxpayer. For an individual, the TIN is a Social Security Number (SSN). For entities such as corporations, partnerships, charities, associations, and government agencies, the TIN is an Employer Identification Number (EIN). A sole proprietorship may have both an SSN for the merchant-proprietor and an EIN for the business; in this case, the IRS prefers the merchant use the SSN; however, the EIN is also acceptable.

9. *What name should I provide?*

The name you provide should be the legal name of your business, as indicated on the articles of incorporation (for a corporation), partnership agreement (for a partnership), or other document showing your official legal name. It is the name you use for filing federal income tax returns. The legal name may be different from the "Doing Business As" (DBA) name. If you are a sole proprietor, you should provide your individual name, regardless of whether you provide an SSN or an EIN to your merchant bank.

10. *What address should I provide?*

You should provide your merchant bank with both the physical location address of your business and



the corporate address, if different. The corporate address is the address you use when filing your business tax returns; it is also the address to which your customers mail your Form 1099-MISC payee statements. Each address must be a complete and valid mailing address (street address or post office box, city, state, and ZIP code).

11. What is “corporate status”?

Every merchant has a business structure, such as sole proprietorship, partnership, or corporation. This is called the “corporate status”. Other examples of corporate status include legal or medical corporation, association/estate/trust, tax-exempt entity, government agency, international organization, and limited liability company. A limited liability company may elect to be treated as a corporation, partnership, or sole proprietorship.

Legal and medical corporations are those that provide legal, medical, or health care services, or are engaged in the billing and collection of payments for such services. Reporting requirements for legal and medical corporations differ from those for non-legal and non-medical corporations.

12. Why do I have to provide my corporate status?

Your customers need to know your corporate status because Form 1099-MISC reporting requirements may differ depending on the type of business structure. By providing the corporate status, you may avoid receiving unnecessary Forms 1099-MISC payee statements. The IRS rules permit most businesses to not file Form 1099-MISC if the merchant is a corporation. However, there are two important exceptions to this rule: 1) if the business is a federal government agency, it must file Forms 1099-MISC for all merchants, even if the merchant is a corporation; and 2) all businesses must file Forms 1099-MISC for payments to medical and legal service providers, regardless of whether or not the merchant is incorporated.

13. Am I required to participate in the QPCA program?

No. You may decline to participate in the QPCA program (“opt out”). However, if you opt out, you will be responsible for providing your TIN directly to all of your customers who need it. If you do not provide your TIN to your customers at the time of the transaction, the customer may have to backup

withhold on future transactions. Since this is costly and cumbersome for your customers, they may elect to stop doing business with you. You may also be liable for penalties for failing to provide your TIN to customers that need it to file information returns.

14. How can I opt out of the QPCA program?

You can opt out of the QPCA program by completing and returning an opt out form to Visa.

15. If I opt out now, can I “opt in” later?

Yes. You must inform Visa in writing. You will need to provide your required information at that time. The election to opt in will be effective no later than 30 days after Visa has verified your legal name and TIN with the IRS.

16. What is TIN Matching?

TIN Matching is a program run by the IRS in which a customer can submit a merchant’s legal name and TIN to the IRS, and the IRS will indicate whether it is a valid combination or not. Under the QPCA program, Visa will perform this service for your customers.

17. What information is provided by the IRS in the TIN Matching results?

The IRS returns the legal name and TIN as submitted, along with a code indicating whether or not a match was found in their records. The code may also indicate that the TIN is invalid or has never been assigned.

18. If the legal name/TIN submitted does not match IRS records, does the IRS provide corrected information?

No. If the submitted legal name/TIN combination does not match IRS records, the IRS returns only a code; it does not provide any “corrected data”. There are two reasons for this: 1) The IRS has no way of knowing whether there was a problem with the legal name or the TIN, or both; and 2) more importantly, it is against the law for the IRS to disclose taxpayer information.

19. What happens if my legal name and/or TIN don’t match IRS records?

If your legal name/TIN cannot be validated by the IRS, Visa will notify your merchant bank. Your merchant bank may contact you to request the



information again. Visa will resubmit the legal name/TIN to the IRS. If there continues to be difficulty with validating your legal name/TIN with the IRS, you may need to contact the IRS to resolve the problem.

20. What will Visa do with the results?

The results of the TIN Matching effort will be provided to your customers in quarterly reports. The reports will indicate whether a merchant's legal name/TIN combination matched IRS records or not.

21. What information will be provided to my customers?

Each quarter, Visa will provide your customers with a report containing the following information about each merchant with which the customer did business during the preceding quarter:

- Merchant's legal business name
- Taxpayer identification number
- Complete address
- Corporate status
- Merchant status (see Question 24 below)

22. What will my customers do with the information?

The merchant information you provide is used by your customers for the purpose of meeting government reporting requirements. Your customers are required by law to protect the confidentiality of your Form 1099-MISC information and not to use it for any other purpose.

23. Which customers will receive my information?

Only your customers who did business with you during the previous quarter and paid with a Visa card will receive your information.

24. What is the "merchant status"?

There are four possible values for the merchant status:

- **Grace Period** – Visa is trying to obtain correct Form 1099-MISC information for the merchant and the time period allowed by the IRS for this purpose has not yet expired
- **Qualified** – Merchant's legal name/TIN was validated by the IRS

- **Non-Qualified** – Merchant's legal name/TIN could not be validated by the IRS
- **Opted Out** – Merchant has declined to participate in the QPCA program

25. What does it mean if a merchant is in the "grace period"?

Visa will have a certain period of time in which to solicit a merchant's legal name/TIN and validate it with the IRS. This is called the "grace period". If a merchant is within the grace period, it means that Visa is attempting to solicit and validate the merchant's legal name/TIN and that the customer does not need to backup withhold on transactions with this merchant until further notice.

If the merchant's legal name/TIN cannot be validated before the grace period runs out, the customer will be notified in a subsequent report that the merchant is non-qualified. At that point in time, the customer may have to undertake its own TIN solicitation or backup withhold on future transactions.

26. What does it mean if a merchant is "qualified"?

If a merchant is qualified, it means that Visa has obtained and validated the merchant's legal name/TIN using the IRS TIN Matching service and that the customer should use that information to file its Form 1099-MISC for the merchant. In addition, a qualified merchant is not subject to backup withholding for an indefinite period of time.

27. What does it mean if a merchant is "non-qualified"?

If a merchant is non-qualified, it means that the merchant's legal name/TIN could not be successfully validated using the IRS TIN Matching service before the expiration of the grace period. If a customer receives a report that one of its merchants is non-qualified, then the customer must undertake to solicit the legal name/TIN directly from the merchant.

28. What does it mean if a merchant has "opted out"?

A merchant will be listed as "opted out" on the report if it has indicated that it does not wish to participate in the QPCA program. If the customer learns that a merchant has opted out, the customer will have an additional two months after receiving



the report to solicit the legal name and TIN directly from the merchant. If at the end of the two-month period the customer still does not have an accurate name/TIN for the merchant, it is required to backup withhold on any future transactions with that merchant.

29. Under the Internal Revenue Code, what information is a merchant required to provide?

A merchant must provide its legal name and TIN to any customer that needs it for information reporting. Under the QPCA program, this is done by providing the information to your merchant bank. However, if Visa is unable to verify the legal name/TIN with the IRS within the specified time frame, then the customer must directly contact the merchant for the correct information. If a merchant fails to respond to either the merchant bank or the customer requests, the merchant may incur a penalty (see Question 30). In addition, failure to provide a correct TIN may result in backup withholding.

30. Can the IRS impose penalties on a merchant?

A merchant may be penalized \$50 for each failure to provide its TIN to a customer that needs it to file an information return.

31. What is “backup withholding”?

The tax laws require cardholders (as well as customers paying by cash or check) to obtain a service merchant’s TIN at the time of the transaction or withhold 28 percent of the payment. The amount withheld is then deposited with the IRS and the merchant gets a credit at year-end on its tax return. This is called backup withholding. It operates similarly to wage withholding for employees.

32. What effect does backup withholding have on a merchant?

Since the payment card system has no withholding function, if backup withholding is required, the customer must make the deposit directly with the IRS. The merchant will be paid in full. This means that the customer will have to pay 28 percent more for the transaction than if the TIN were provided. Obviously customers will not want to inflate their purchasing costs by 28 percent, and they may choose to stop doing business with a merchant who is non-qualified or has opted out.

33. When is backup withholding required in the QPCA program?

Backup withholding is never required unless two things happen: 1) the customer receives a notice from the QPCA in the quarterly report that the merchant is either non-qualified or has opted out; and 2) the customer has not succeeded in obtaining the merchant’s legal name/TIN on its own within two months after being notified by the QPCA that the merchant is non-qualified.

34. If backup withholding is required, but the customer does not backup withhold, what happens?

If backup withholding is required, the customer is liable for the amount, even if it did not withhold it from the merchant. In addition, the customer may incur penalties for failure to backup withhold. These rules are the same as those which apply to wage withholding. More information about this can be found in IRS Publication 15.

35. If backup withholding is done, what happens to the money?

The customer must deposit the money withheld according to IRS rules regarding timing and method. The customer may incur penalties if the depositing is not done correctly. The rules for depositing backup withholding are the same as those that apply to wage withholding.

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