

Beware of the Emerging Payment Scams on PayPal and Other Platforms

December 29, 2022 - In case you haven't been paying attention, the IRS issued a warning to taxpayers a few weeks ago. If you receive more than \$600 in commercial payments on payment platforms like PayPal, then you need to wait to file your 2022 taxes until you receive a 1099-K from those platforms. (A 1099-K is a form that reports income to the IRS). Last week, the agency pushed out the time frame for their warning, but the requirement is still going to become a hard and fast rule this next year, and it has resulted in some merchants changing their "acceptable payment policies" in a way that leaves consumers vulnerable to scam artists.

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s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
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})();
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(function() {
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po.src = 'https://apis.google.com/js/plusone.js';
var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
})();
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When you make a payment via PayPal, you have a choice. You can choose to make the payment using their "Goods/Services" category or you can made by choosing "Friends and Family." If you choose Goods/Services, you have protection. If you find that you've been victimized in a scam, PayPal can actually stop your payment. And using this method also triggers the requirement for IRS reporting.

On the other hand if you use Friends and Family, there is no requirement for IRS reporting. Needless to say, some small merchants prefer this method. However, if you make this selection, you have virtually no protection against scams. Using this method, your funds are transferred almost immediately and the process can't be reversed by PayPal.

To be clear, this isn't just a PayPal issue and we're not attempting to single them out. They just happen to be the 800-pound gorilla in this space, but virtually all similar payment platforms face the same issue.

Because of the new rule, small merchants and individual sellers may require payment using the Friends and Family category only. But as a consumer, unless you know the merchant personally, you need to be aware of the fact that you are taking a significant risk. You could wind up losing all of your money and never see the merchandise you intended to purchase.

Scam artists are aware of the IRS change and they are trying to take advantage of it. As a result, we expect to see an increase in the number of scams being operated this way over the course of the next few months. Buyer beware!

by Jim Malmberg

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