

new Internal Revenue Service reporting requirements

a merchant's guide to staying in compliance

overview

In our efforts to keep you aware of certain regulations that will impact your business, American Express has written the following overview to highlight its requirements under the new Internal Revenue Service (IRS) merchant transaction reporting rules and regulations. These new reporting requirements for merchant acquirers such as American Express were added under the Internal Revenue Code (the Code) by the Housing and Economic Recovery Act of 2008.

Starting with the tax year 2011 (January 1, 2011 - December 31, 2011), Section 6050W of the Internal Revenue Code will require all "merchant acquiring entities," including American Express Travel Related Services Company, Inc., to annually report the payment card transactions they make with participating merchants on 1099-K forms.

According to the IRS, this new reporting requirement is designed to improve voluntary tax compliance by business taxpayers. These 1099-K forms will report the gross amount (in dollars) of the transactions that were paid with a payment card to each of our merchants. American Express will be required to file these 1099-K forms with the IRS and will also provide a copy to each of our merchants.

You will need to verify that your tax information – your Tax Identification Number (TIN), your legal business name, and the business address – you have on file with the IRS is correct.

This information also has to exactly match the information you have on file with American Express in order for us to provide a correct 1099-K form to the IRS. Otherwise, if any of your tax information is missing or incorrect, your business will be subject to a mandated 28% federal backup withholding beginning in 2012. In other words, the IRS will require American Express to hold back and remit to the IRS 28% of our payments to you until the records are corrected.

American Express is committed to ensuring that this process is an easy one for you, and to providing the support you need.

From now through September 2011, American Express will be contacting all of our merchants. Our goals are to assist in verifying your information, and ensure compliance with this new federal requirement.

what you will be required to do

1. Your obligation is to make sure that the **Legal Business Name and the Federal Tax Identification Number (TIN)** you have on file with the IRS are accurate.

2. Verify that the information on file at **American Express is accurate, and exactly matches the information the IRS has on file for you.**

If the information is not on file, does not match, or is not accurate, it will need to be corrected.

3. **Provide the Legal Status of your company.** (For example, are you a sole proprietor, LLC, Non-Profit, corporation, etc.). **We also need to know your affiliation information** – if you're an independent company, company owned, or a franchise.

4. Verify that your **correct business mailing address** is on file.

what American Express will do for you

American Express is committed to compliance with every aspect of this new legislation. We want to make sure your information is accurate.

Efforts to Assist Our Merchants Have Already Begun

American Express remediation efforts began in 2009 with IRS TIN matching. Additionally, from May 2010 through September 2011, American Express will be contacting merchants with instructions of what's required and how to proceed. Watch for more information on this, and be sure to respond promptly to any requests.

You will also want to contact your Tax Advisor to find out how this new legislation will affect your business.

Information in this document does not constitute tax, legal or other professional advice and must not be used as such. If you have questions, please contact your Tax, Legal or Professional Advisor.

important dates

2009

IRS TIN matching begins

2010 - 2011

Proactive outreach to merchants

JANUARY 1, 2011 - DECEMBER 31, 2011

Data collection for first reporting year

JANUARY 31, 2012

Form 1099-K to merchants

MARCH 31, 2012

Form 1099-K to IRS

IMPORTANT: If you have not supplied the correct TIN, legal business name and/or address, or the information on file does not match, federal backup withholding of 28% will begin on January 1, 2012. Withholdings are remitted to the IRS.

definitions

Legal Name

Your “legal name” is typically the name you use to file your federal tax returns, or the legal name you provided to the IRS filed on Form SS-4. This must match what is on file with American Express, otherwise 28% of the merchant’s payment card transactions will be withheld and remitted to the IRS (i.e., federal backup withholding).

Legal Status

Your company’s “legal status” describes how your company is registered with the IRS. For example, you might be a sole proprietor, LLC, Non-Profit, or corporation.

Federal Tax Identification Number (TIN)

A Federal Tax Identification Number (TIN) is an identification number used by the IRS in the administration of tax laws. In most cases, your TIN is either a Social Security Number (SSN) or Employer Identification Number (EIN).

Gross Amount

For these purposes, “gross amount” means the total dollar amount of transactions in which a payment card is accepted as payment for each merchant without regard to any adjustments for credits, cash equivalents, discount amounts, fees refunded amounts, or any other amounts.

Merchant Acquiring Entity

This is the bank or other organization (including American Express) that is contractually obligated to make payment to you in settlement of payment card transactions.

Backup Withholding Notice (B-Notice)

A backup withholding notice (B-Notice) is a notice that the IRS will send to each merchant acquiring entity (like American Express) for every 1099-K filing that has an incorrect TIN and/or Legal Name.

The merchant acquiring entity will have 30 days to solicit and obtain the correct TIN and/or Legal Name on Form W-9 from the merchant customer. Otherwise, the 28% backup withholding will be required. All withholdings are remitted to the IRS.