

Joint Committee on Taxation
September 17, 1990
JCX-26-90

EXPLANATION OF CODE SECTION 6050I
(RETURNS RELATING TO CASH RECEIVED IN TRADE OR BUSINESS)

Scheduled for a Hearing Before the Subcommittee
on Oversight of the House Committee on Ways
and Means on September 20, 1990

A person engaged in a trade or business who receives, in the course of the trade or business, more than \$10,000 in cash or foreign currency in one or more related transactions must report it to the Internal Revenue Service (IRS) and provide a statement to the payor. This reporting requirement was added in 1984 because Congress believed that reporting on the spending of large amounts of cash would enable the IRS to identify taxpayers with large cash incomes that might otherwise be underreported.

Reporting is required whether or not consideration is returned for the cash and whether or not the cash is received for the recipient's own account or for the account of another (with narrow exceptions provided by IRS regulations). For example, if a title company receives more than \$10,000 in cash from the purchaser of real estate as his downpayment, the title company must generally report the receipt of that cash, even though it receives the cash on behalf of the seller.

For purposes of the reporting requirement, only currency is treated as cash--not checks, traveller's checks, drafts, money orders, or other cash equivalents. A transaction subject to reporting is any receipt of cash including receipt in connection with the purchase of goods or services, the purchase or exchange of property, the opening of a deposit or credit account, or any similar transaction.

The recipient of the cash is required to report the name, address and taxpayer identification number of the payor, the amount of cash received, the date and nature of the transaction, and such other information as the Secretary may require. In addition to furnishing reports on each cash transaction to the IRS, the recipient of the cash must furnish each payor an annual statement aggregating the amounts of cash received from him. This statement must be furnished on or before January 31 of the year following the year of the reportable event.

Any taxpayer subject to this provision who receives more

than \$10,000 in cash in one or more related transactions is required to report those transactions. For example, assume that an individual purchases a \$8,000 item and a \$1,500 item at an auction. The auction house adds a 10-percent buyer's premium and a 5-percent local sales tax. The taxpayer pays his \$10,972.50 bill in cash. The auction house must report on that transaction. The auction house could not avoid the reporting requirement by presenting two separate bills of \$9,240 and \$1,732.50.

Reporting is not required on payments (1) that are received in a transaction reported under the Bank Secrecy Act if the Secretary of the Treasury determines that the report under this provision would duplicate the report under the Bank Secrecy Act, or (2) that are received by certain specified financial institutions within the meaning of the Bank Secrecy Act.

The penalty for failure to file required reports with the IRS and to furnish statements to taxpayers is similar to that imposed on failures to make other information reports and statements. Thus, the penalty is \$50 per failure, subject to a maximum of \$250,000 for any calendar year. The penalty is not applicable if the failure is due to reasonable cause and not to willful neglect. If, however, the failure to file required reports with the IRS is due to intentional disregard of the filing requirements, the penalty is 10 percent of the aggregate amount of the items required to be reported and the \$250,000 limitation does not apply. In addition, under Code section 7203, any willful violation related to the filing of returns relating to cash receipts of more than \$10,000 received in the course of conducting a trade or business is, upon conviction, punishable by a fine or imprisonment not to exceed 5 years or both. Similar civil and criminal penalties apply to persons who, for the purpose of evading the return requirement, cause or attempt to cause a trade or business to fail to file, or to file falsely, a required return.