MASTERING IRS FORMS

Filing 1099, W-9, and other forms
as a year-round compliance issue

Avalara

Tax compliance done right

Contents

DISCLAIMER

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.

Introduction

While "tax season" is typically thought of as occurring in April, anyone who works with IRS forms knows the actual tax season is pretty much all year round.

Managing IRS compliance is no easy feat; there are a variety of forms for every conceivable way of making, spending, saving, and investing money.

Because of stringent recordkeeping and filing requirements, Form 1099 and its partner form, the W-9, can be two of the most important IRS documents that businesses deal with. The two are often referred to in tandem because Form W-9 is used to request the legal name, tax ID (Social Security number or Employer Identification Number), and address when onboarding a nonemployee vendor, company, or individual. The paying entity uses that information to report taxes on the nonemployee income paid at the end of the calendar year, via a Form 1099.

Introduction

A simplified way of thinking about a 1099 is that it's the nonemployee payee's version of a traditional W-2. The form comes in many variations, such as the 1099-NEC, the 1099-K, the 1099-DIV, and so on.

Running a successful company is hard enough without managing mystifying forms with tight filing deadlines. IRS forms can be challenging, but with the right automation and technology, you can efficiently file these forms with minimal disruption to your business.

YEAR ROUND

Form 1099 deadlines are in January, so there's a two-month rush of activity beginning in December, but related forms require attention throughout the year.

Support from an automated platform can help companies manage all of these forms without having to hire additional staff. For instance, a cloud-based platform can help employers obtain W-8 and W-9 forms from vendors and contractors online, then file IRS forms 1099, W-2, 1095, W-9, and more. Anyone with the responsibility of tax compliance can manage multiple payers from a single account, which business owners can use to file one form or thousands.

Regardless of volume, automation cuts down on missing and erroneous data by comparing name and tax ID against the IRS database, helping to avoid costly fines from the IRS. Meanwhile, users can save time and increase productivity with recipient e-delivery, e-corrections, postal delivery, address verification, TIN check, and individual state filing.

In this guide, we offer tips on the most pressing issues concerning these and related forms. We've also added resources where you can learn more about the Avalara tools and products to help you stay ahead on filing.

Key terms

IRS forms require a certain level of expertise to understand. It helps to know specific terminology if you're going to stay on top of this crucial aspect of tax compliance.

▶ **Information returns:** A form that payers use to notify the IRS about taxable payments.

▶ **W-9:** A specialized form used to provide a Taxpayer Identification Number (TIN) to the person required to file an information return with the IRS to report, for example, income, real estate transactions, mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, or contributions to an IRA.

▶ **1099:** Produced for vendors annually, these are the byproduct of the W-9 creation process. The 1099 is required if the vendor or company receives payment for services throughout the calendar year. Certain dollar thresholds apply before the form is required.

▶ **W-8:** These forms provide non-U.S. individuals and entities with an exemption from specified U.S. information return reporting and backup withholding regulations. There are a variety of W-8 forms, such as the W-8BEN, W-8BEN-E, W-8ECI, W-8IMY, and W-8EXP.

▶ **1042S:** These annual forms are produced for non-U.S. individuals as a byproduct of W-8 creation. Certain dollar thresholds apply before the form is required.

▶ **TIN:** Taxpayer Identification Number. Used by the IRS in the administration of tax laws, issued by either the Social Security Administration (SSA) or the IRS.

▶ **SSN:** Social Security number. Issued by the SSA and valid for use as a TIN. All other TINs are issued by the IRS.

▶ **EIN:** Employer Identification Number. Also called a Federal Tax Identification Number, issued by the IRS to identify a business entity.

▶ **ITIN:** Individual Taxpayer Identification Number. A 9-digit number the IRS issues to filers of a tax return who are not U.S. citizens and who do not have or who are not eligible for an SSN.

▶ **PTIN:** Preparer Tax Identification Number. Anyone who prepares or helps prepare a federal tax return for compensation must have a valid PTIN from the IRS before preparing returns; they must include the PTIN as the identifying number on any return filed with the IRS.

▶ **FATCA:** Foreign Account Tax Compliance Act. A piece of U.S. legislation that primarily aims to prevent tax evasion by U.S. taxpayers by using non-U.S. financial institutions and offshore investment instruments.

▶ **IDR audit:** Information Document Request audit. This occurs when the IRS conducts a detailed audit of a taxpayer and requires documents and records retained by that taxpayer.

▶ **B Notice:** An IRS notification that one or more tax ID numbers were missing from a 1099 or do not match IRS records, and a company must begin backup withholding.

Common industries

How many forms is typical for your industry?

With the explosion of gig economy work, it seems like almost every company files 1099s and other information returns because they rely on the work of vendors, contractors, and freelancers. This holds especially true for clients in:

- Real estate
- Construction
- Transportation
- Healthcare

- Retail
- Manufacturing
- Marketplaces

The most common 1099s

What is "nonemployee income"? And which 1099s are you most likely to handle?

Most of us are familiar with what the IRS considers "employee income," typically a salary or wage paid two or four times a month via a paycheck. At the end of the year, the company issues the employee a W-2 used to file taxes.

Nonemployee income, reported using a 1099, refers to all other earnings. For example, say you decide to send a monthly newsletter to your customers and hire a freelance writer/editor for the job. The freelancer devotes 10-15 hours a month to the project and submits a monthly invoice.

At the end of the year, you need to file a Form 1099-NEC, "Nonemployee Compensation," with the IRS reporting the income that was paid to that freelancer. You also need to provide a copy of the 1099-NEC to the freelance writer. Side note: The 1099-NEC is probably the most common 1099 you'll see.

This isn't the only type of nonemployee income that the IRS wants to know about, of course. There are 20 other 1099s to report income, including:

"Nonemployee income, reported using a 1099, refers to all other earnings."

▸ **The 1099-MISC, "Miscellaneous Information,"** is the second-most common 1099 and covers many categories of income, like rent paid to property owners. The 1099-MISC was the primary 1099 until the 1099-NEC was created in 2020.

▸ **The 1099-INT, "Interest Income,"** is submitted by a bank to report interest income that a taxpayer received from accounts over the year.

▸ **The 1099-DIV, "Dividends and Distributions,"** is used to report dividend income.

▸ **The 1099-B, "Proceeds From Broker and Barter Exchange Transactions,"** is used to report investment income.

All eyes on the 1099-K

You'll likely start to see a lot more of the 1099-K, "Payment Card and Third Party Network Transactions." The 1099-K is used to report income that flows via digital transactions through a payment processor or a third-party settlement company. For example, if your business has a point-of-sale system that processes credit cards, the processing company issues a 1099-K to you at the end of the year, reporting all the transactions.

Both businesses and individual sellers who have at least $20,000 in income from online platforms such as eBay or Etsy receive a 1099-K. However, the IRS is planning to lower the threshold to $5,000 for the 2024 tax year.

Experts are predicting a filing tsunami of the new 1099-Ks, and new survey data from Censuswide and Avalara shows that these new IRS reporting rules will prompt over half of respondents to reconsider marketplace selling and gig work.

Filing deadlines, changes, and penalties

IRS requirements change all the time, and often seemingly right before the filing deadline. Looming over the 2023 tax season was the possibility that Congress would alter the 1099-K threshold at the last minute. At the end of the year, the IRS postponed the threshold amendment altogether.

Filing deadlines vary with the type of form, as well. The 1099-NEC deadline is January 31, but a few of the other 1099s may be due to the IRS in February, with others due to the IRS at the end of March.

Are businesses ready for the 1099-K changes? To find out, Avalara commissioned Censuswide to survey gig workers, marketplace sellers, and decision-makers at online marketplaces and found that the filing complexity offers opportunities for businesses.

55%
of respondents see the proposed 1099-K reporting threshold change as a potential barrier to continuing marketplace selling or gig work.

83%
of marketplaces are anticipating sellers to drop from their platforms because of 1099-K compliance complexity.

90%
of marketplaces believe third-party sellers on their platforms are prepared for the proposed 1099-K changes, versus 51% of third-party marketplace sellers.

You must also provide a copy of 1099s to your vendors by January 31 which leads to a potential complication: If you intend to provide an electronic copy to the recipient, you must get explicit consent from the recipient that an electronic copy will serve in lieu of a paper one. Even if the recipient does consent to that, you must give the vendor the chance to change their mind and request a paper copy.

Another big change: The e-filing threshold for 1099s is dropping from 250 forms to just 10. That's a potentially huge burden for businesses with processes that rely on submitting paper returns via postal mail.

State requirements can change fast, too, and states don't always do the best job of posting the latest filing requirements on their websites. For example, California requires a second form in addition to the 1099 but that information isn't on the state's website. Oklahoma requires direct filing of some 1099s. And South Carolina requires that the federal 1099 be burned to a CD-ROM in an old-style text file and physically mailed to the state.

What's the penalty for failure to meet federal filing requirements? One of the stiffest penalties associated with noncompliance of 1099 filing is the B Notice. If either the business name or the TIN on a 1099 is incorrect, the business that filed the 1099 could be fined and sent a B Notice to remediate. The name "B Notice" refers to a required backup withholding of 28% on future payments to the payee, if the correct information is not included in future information filings.

The B Notice requires action within just 15 days of receipt, and fines for B Notices are $250 per notice and $60 to $630 for each form with missing or incorrect information. The IRS is required to send paper copies of B Notices to recipients.

"The name 'B Notice' refers to a required backup withholding of 28% on future payments to the payee."

Other concerns and dangers

If you're getting the impression that handling and filing IRS forms can involve manipulating a huge amount of information in a condensed time, you're right.

As you try to budget your hours and days to avoid a time-pressed scramble in January, here are some ways to set yourself up for success:

Plan ahead. The 1099 filing season can easily catch your business short of staff and short of hours as the deadline suddenly looms. Confirm you have the correct information on your W-9s and are transferring the right information to your 1099s
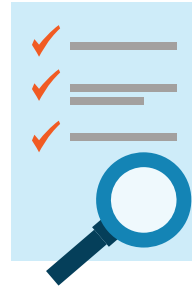
Confirm you have the correct information on your W-9s and are transferring the right information to your 1099s.

▸ **Did a company change its name during the year?**

▸ **Did a vendor get married and start using a new name?**

▸ **What state tax ID information has to be accounted for?**

Aim to get most of your filing done in January, leaving only the trickle of 1099s that come in during February and March. The longer you wait, the more you could be scrambling for this information in the weeks ahead. The more hurried you are, the more likely someone will make (or miss) an error.

In the second quarter of the year, determine who owns the internal 1099 filing and W-9 collection for your business. We often hear companies have no such owner of this process; we even see many customers where multiple people from a company have filed the same 1099s in the same year.

The third quarter is for due diligence. If you've selected a compliance management platform, make sure you have a good idea of how you're going to get your data into it, what format the platform operates with, and whether you will be entering material manually. Enterprise businesses should familiarize themselves with how their systems will help generate reports that can be imported to the platform.

Remember not all businesses manage IRS forms the same. Larger companies often have a good process to gather 1099s as soon as they start a relationship with a vendor. Smaller companies might not do as great a job of collecting 1099s up front, leading to a scramble in January, in some cases chasing information from vendors who've been gone for months. Smaller businesses without an existing system may want to get a head start as they gear up for filing season.

Keep information security top of mind. You're processing highly sensitive information with IRS forms; treat that information with the security it deserves, and remember that a data breach could result in catastrophic litigation. You don't want to be the next Equifax because somebody emailed a file to the wrong place or somebody's unsecured laptop got stolen.

Apply the same security standards to any platforms or programs you consider implementing. For example, Avalara 1099 & W-9 is in the process of a strenuous security audit and will soon institute even further upgrades.

Watch the news. Pay attention to ongoing legislative changes that affect W-9 collection and filing of the 1099 series.

Get a head start on the filing season

Keep information security top of mind

Pay attention to ongoing legislative changes

What to look for in a platform

If you're evaluating process or compliance management platforms, there are a few key things to make sure are included:

▶ **A streamlined, intuitive process to onboard W-9s**; vendors should be comfortable filling out the form. Also look for automatic transfer of W-9 information to 1099s.

▶ **Easy e-filing with the IRS** and delivery to recipients with year-over-year storage of filings to refer to during audits.

▶ **Seamless corrections filing with the IRS.** With so many points of contact, mistakes in data entry are always possible. Make sure you have a way to submit corrections after the January 31 deadline.

Avalara makes it easier to collect, manage, and e-file your IRS forms

Avalara 1099 & W-9 offers a secure way to e-file and manage 1099s, W-2s, 1095s, W-9s, and more in the cloud. Additional benefits of automating with Avalara include:

- *Streamlined vendor information collection:* Connect with vendors and freelancers to collect and store their information while performing real-time TIN matching with the IRS.

- *Reduced risk with vendor information management:* Store IRS forms W-9, 1099, and more in a central and secure location where they're accessible for an IRS audit.

- *Simpler and more cost-effective IRS e-filing:* Import 1099 payee data and transfer vendor details from your W-9s for quick turnaround to the IRS, while automatically checking for errors.

Avalara 1099 & W-9 allows tax pros and businesses to quickly create and e-file information returns to the IRS. It also offers recipient e-delivery, e-corrections, postal delivery, address verification, individual state filing, and participation in the Combined Federal and State Filing program. As users complete the online wizard for W-9s, Avalara 1099 & W-9 will automatically verify the TIN against the corporate business name registered with the IRS. If incorrect, the user will be prohibited from completing and submitting the form.

Avalara tax solutions

Avalara can do more than just help file your 1099 & W-9 forms.
Our suite of tax compliance solutions can help with:

- Domestic and international tax calculations, including VAT, customs, and imports

- Consumer use tax

- Exemption certificate management

- Property tax

- 1099s

- Special taxes, including communications, lodging, beverage alcohol, tobacco, and energy

Who is Avalara?

We're a team of tax experts and technologists behind one comprehensive solution for your tax compliance needs. We live and breathe sales tax and license compliance, so you don't have to.

Contact Avalara to learn more about how your practice can leverage technology to grow your sales tax compliance practice.

Call 877-224-3650 or visit **Avalara.com/1099**

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