



FSLG Free Tax Forum

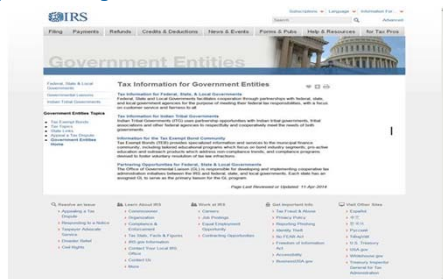
CP2100 & Backup Withholding

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Federal, State, and Local Government
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CP2100 & Backup Withholding

<http://www.irs.gov/Government-Entities>

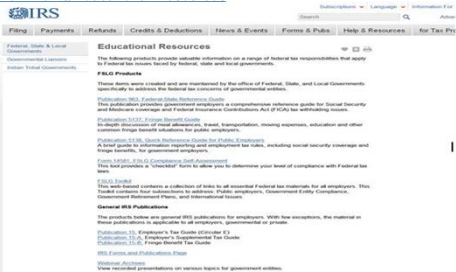


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CP2100 & Backup Withholding

www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/Educational-Resources



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CP2100 & Backup Withholding

What is this forum today all about?

- ✓ Getting Fan Mail from the IRS?
- ✓ Do you know what to do next?
- ✓ Who should you contact?
- ✓ Could you have prevented this?

Tax law provides that payers to vendors for services and other payments may be required to withhold a percentage of certain reportable payments made to vendors for whom an information return was filed that contained a missing or incorrect Taxpayer Identification Number (TIN).

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CP2100 & Backup Withholding

Basic Compliance Requirements

- ✓ Withholding Rate is 28%
- ✓ Withhold from payment & Deposit with IRS
- ✓ Report with Form 945
- ✓ Refresh by visiting: www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Backup-Withholding-B-Processes

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The vendor refuses or neglects to provide a TIN. What should I do?

- ✓ Begin backup withholding immediately on any reportable payments over \$600.
- ✓ You must continue to request the TIN annually until received.

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CP2100 & Backup Withholding

How do I know if a vendor TIN is incorrect ?

- ✓ After the submission of Form 1099 information returns, the IRS sends you a CP2100 or a CP2100A Notice and a listing of incorrect Name/TIN(s) reported on those forms.
- ✓ CP2100/A is a Notice that tells a payer that he or she may be responsible for backup withholding.
- ✓ The Notice is accompanied by a listing of missing, incorrect, and/or not currently issued payee TINs.

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What should I do if I receive a CP2100/A Notice?

Compare the listing(s) with your records.

- Are you missing TINs?
Begin Backup Withholding immediately and continue until you receive a TIN.
- You must make up to three solicitations for the TIN (initial, first annual, second annual), to avoid a penalty.
 - Deposit (FTD) penalties (IRC § 6656)
 - Failure to File (FTF) and Failure to Pay (FTP) penalties (IRC § 6651)
 - Interest

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Incorrect TIN's & Missing TIN's

TIN "missing" status:

- ✓ > or < 9 numbers
- ✓ any alpha character

Missing SSN:
123-45-678

Missing SSN:
123-45-67899

Missing EIN:
12- 345678P

TIN "incorrect":

- ✓ TIN *format* is good but Name/TIN combo is not
- ✓ TIN/Name combo can't be found on IRS or SSA files.

Good SSN/EIN:

123-45-6789/12-3456789

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Compare the accounts on the listing from the IRS with your vendor records.

- ✓ If they agree, send the appropriate "B" Notice to the payee.
- ✓ If an account does **not** agree, this could be the result of a recent update to SSA records, an error in the information you submitted, or an IRS processing error.
- ✓ Correct or update your records, if necessary.
 - ✓ Remember: You do not have to call or write to the IRS to say that you made the correction or update to your records.

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What is a "B" Notice?

The "B" Notice is a "B"ackup withholding notice. There are two -- the First "B" Notice and the Second "B" Notice.

- ✓ You send the First "B" Notice with a Form W-9 to the vendor identified by the IRS with CP2100 or CP2100A Notice to solicit a correct Name/TIN combination.
- ✓ You send the second "B" Notice to a vendor after you receive a *second* CP2100 or CP2100A Notice *within a 3 calendar year period*.
- ✓ Refer to Publication 1281 and the CP2100 Notice you received for instructions.

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FIRST "B" NOTICE

First B Notice

IMPORTANT TAX NOTICE ACTION IS REQUIRED

Backup Withholding Warning!

WE NEED A FORM W-9 FROM YOU BEFORE: _____. Otherwise, backup withholding will begin on

Account Number
Current Name on Account
Current TIN on Account

The Internal Revenue Service (IRS) has notified us that the taxpayer identification number (TIN) on your account with us does not match its records. The IRS considers a TIN as incorrect if either the name or number shown on an account does not match a name and number combination in their files or the files of the Social Security Administration (SSA). If you do not take appropriate action to help us correct this problem before the date shown above, the law requires us to backup withhold on interest, dividends, and certain other payments that we make to your account. The backup withholding rate is: ____ [set forth rates/dates] In addition to backup withholding, you may be subject to a \$50 penalty by the IRS for failing to give us your correct Name/TIN combination. This notice tells you how to help us make your account records accurate and how to avoid backup withholding and the penalty.



SECOND "B" NOTICE

Second B Notice

IMPORTANT TAX NOTICE ACTION IS REQUIRED

Second Backup Withholding Warning!

YOU MUST HAVE THE IRS OR SSA VALIDATE YOUR TAXPAYER IDENTIFICATION NUMBER AND RETURN IT TO US: Otherwise, backup withholding will begin.

Account Number

Current Name on Account

Current TIN on Account

We have received notice from the Internal Revenue Service (IRS) twice within 3 years stating that the combination of the name and taxpayer identification number (Name/TIN combination) on your account with us is incorrect, (your account number, current name on the account, and current taxpayer identification number (TIN) on the account are shown above.) A Name/TIN combination is incorrect if it does not match a Name/TIN combination shown on the records of the Social Security Administration (SSA) or the IRS.



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When Do I Send the First "B" Notice?

- ✓ 15 business days from the date of the CP2100A or CP2100 Notice, or the date you received it (whichever is later), to send a first "B" Notice with Form W-9 to a vendor.
- ✓ Incorrect TIN response:
 - send a "B" Notice to a vendor whose Name/TIN combination and account number on your records agrees with the combination that IRS identified as incorrect.

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Second "B" Notice

- ✓ Send the Second "B" Notice w/reply envelope to the vendor within 15 business days.
- ✓ No Form W-9 with the Second "B" Notice.
- ✓ Date "B" notice no later than 30 business days after the date of the CP2100/CP2100A Notice or the date you received it (whichever is later).
- ✓ The outer mailing envelope must be clearly marked "IMPORTANT TAX INFORMATION ENCLOSED" or "IMPORTANT TAX RETURN DOCUMENT ENCLOSED."
- ✓ The payee must go to their local SSA office to have his or her social security number validated on Form SSA-7028, Notice to Third Party of Social Security Number Assignment.
- ✓ If the TIN is an EIN, the payee must contact the IRS to get his or her employer identification number validated on the IRS Letter 147C.

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Second "B" Notice (cont'd.)

- ✓ Allow 30 business days after the date of the Second "B" Notice to receive SSA Form 7028 from the SSA or Letter 147C from the payee.
- ✓ You *may* begin backup withholding anytime during the 30 business day period.
- ✓ You *must* begin backup withholding by the 30th day if you have not receive Form SSA-7028 or Letter 147C.
- ✓ Backup withhold until you receive the validation.

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When should I begin withholding?

- ✓ Withhold from payments to vendors who do not respond w/W-9 to First B notice no later than 30 days after the date of the CP2100 Notice or the date you received it or as soon as the date you receive the Notice. Stop no later than 30 days after you receive a W-9.
- ✓ Begin withholding based on the Second "B" Notice if you do not receive a L147C (IRS) or Social Security Number printout from SSA by the 30th business day or anytime during that 30 days. Stop after receiving verification.

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- ✓ It is your responsibility to send the appropriate "B" notice to the vendor.
- ✓ The required verification of ID may not be solicited by telephone.
- ✓ You are not required to file a corrected Form 1099 with the new information unless the dollar amounts reported did also change.

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Third and Subsequent Notices

- ✓ Generally, you may ignore a third or subsequent notice of missing incorrect TIN(s)
- ✓ However, if the CP2100/CP2100A Notice and listing(s) relate to the same payee, but with a different Name/TIN combination than on the "first" and "second" notice, you must treat the notice as a "first" notice.

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Common Situations:

1. If you know that an account was corrected, do not send a "B" Notice to the vendor.
2. If you made an error processing the 1099 and you know you have the correct information update your records and use the correct information now. Do not send a "B" Notice to the payee.
3. Vendor response to the First "B" Notice resulted in the same data as on file. Just keep the new certified Form W-9 on file. Do not backup withhold.
4. Send "B" Notices to vendors that you no longer use as well. Try to get the correct TIN. Document your efforts for the two in three year rule. Track these accounts for three years after the date of the first Notice

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FORM 945

Form 945		Annual Return of Withheld Federal Income Tax		OMB No. 1545-1420	
Department of the Treasury Internal Revenue Service		For withholding reported on Forms 1099 and W-2s. See separate instructions. For more information on income tax withholding, see Pub. 15 (Gen. I) and Pub. 15-A. Please type or print.		2011	
Enter state code for state in which payments were made only if different from state in address to the right ▶ (See the instructions).	<input type="checkbox"/> Name (as distinguished from trade name) Trade name, if any Address (number and street) City, state, and ZIP code	Calendar year	Employer identification number (EIN)	If address is different from prior return, check here ▶	<input type="checkbox"/>
A If you do not have to file returns in the future, check here ▶ <input type="checkbox"/> and enter date final payments made ▶					
1	Federal income tax withheld from pensions, annuities, IRAs, gambling winnings, etc.	1			
2	Backup withholding	2			
3	Total taxes. If \$2,500 or more, this must equal line 7M below or line M of Form 945-A	3			



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What form do I use to report backup withholding?

- ✓ Report backup withholding on Form 945, Annual Return of Withheld Federal Income Tax.
- ✓ Refer to these resources from irs.gov for details:
 - Form 945 & Instructions
 - Pub. 15, (Circular E), Employer's Tax Guide.
 - The Information Reporting Program Customer Service Section
 - Toll-Free Telephone (866) 455-7438
 - E-Mail: mccirp@irs.gov
 - Hours...8:30 am to 4:30 p.m. M - F (EST)

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Taxpayer Identification Number Matching

TIN Matching ~ a part of E-Services

- Pre-filing service
- Match up to 25 taxpayer identification number and name combinations
- Results returned within seconds.
- Prevent Notices and penalties for the payer.

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REGISTRATION

- To register: search for **e-services** on IRS.gov see Publication 3112
- Requires an application for TIN Matching
- See Publication 2108A or call 1-866-255-0654



Social Security Number Verification Service (SSNVS)

- ✓ Available 24 hours a day, 7 days a week.
- ✓ To learn more about SSNVS, download and read the handbook available at ssa.gov/employer/ssnvshandbk/ssnvs_bso.htm.

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Join Us Next Time
July 30th
Independent Contractor or Employee?

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