

From the desk of Peter S. Muffoletto, C.P.A.

Peter S. Muffoletto
Certified Public Accountant



Withholding and Reporting Nonemployee Compensation

When a business retains the services of an independent contractor the employer is generally not responsible for withholding income taxes, Social Security, or Medicare taxes from their compensation.

Business taxpayers who pay nonemployee compensation of \$600 or more must report any payments to independent contractors to the IRS and the state in which the work is performed which means if the contractor is not in the state in which the payor is located then the state in which the work is done by the contractor must be provided a 1099, doing so by issuing Form 1099-NEC, Nonemployee Compensation.

Business taxpayers must file Form 1099-NEC by January 31. There is no automatic 30-day extension to file Form 1099-NEC.

Nonemployee compensation reportable on Form 1099-NEC is subject to backup withholding if a payee has not provided a Taxpayer Identification Number to the payer or the IRS notifies the payer that the payee provided a TIN that does not match their name in IRS records.

A TIN can be one of the following numbers:

- Social Security
- Employer identification
- Individual taxpayer identification
- Adoption taxpayer identification

Backup Withholding

Backup withholding can apply to most kinds of payments reported on Forms 1099 and W-2G. The person or business paying the taxpayer does not generally withhold taxes from certain payments although there are situations when the payer is required to withhold a certain percentage of tax to make sure the IRS receives the tax due on this income.

The payer's requirement to withhold taxes from payments not otherwise subject to withholding is known as backup withholding.

The current backup withholding tax rate is 24%.

When backup withholding has been withheld from a contractor's income, the amount withheld must be paid to the IRS by **electronic funds transfer (EFT)**.

Should the total withholding payments be less than \$2,500 for the year payments can be made with the annual reporting Form 945.

State backup withholding requirements differ for each state.

Should you have a backup reporting and payment situation, contact us for guidance.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

Should you have questions relating to any

tax or financial matters call at

(818) 346-2160,

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Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.

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