

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

## **24-Percent Withholding Rate Applies to All Businesses that Pay any Payments to Others**

Backup withholding applies to all businesses that pay subcontractors who fail to supply a completed W9 with the correct taxpayer identification number (TIN) to a payer.

When backup withholding applies payers must withhold tax from payments not otherwise subject to withholding.

Payees may be subject to backup withholding if they:

- Fail to give a TIN,
- Give an incorrect TIN,
- Supply a TIN in an improper manner,
- Underreport interest or dividends on their income tax return, or
- Fail to certify that they're not subject to backup withholding for underreporting of interest and dividends.

Backup withholding can apply to most kinds of payments reported on Form 1099, including:

- Interest payments;
- Dividends;
- Patronage dividends, but only if at least half of the payment is in money;
- Rents, profits or other income;
- **Commissions, fees or other payments for work performed as an independent contractor;**
- Payments by brokers and barter exchange transactions;
- Payments by fishing boat operators, but only the portion that's in money and represents a share of the proceeds of the catch;
- Payment card and third-party network transactions; and
- Royalty payments.

Backup withholding also may apply to gambling winnings that are not subject to regular gambling withholding.

Backup withholding also applies following notification by the IRS where a taxpayer underreported interest or dividend income on their federal income tax return.

To avoid backup withholding the payee must provide the appropriate information submitted to the payor prior to payment.

Payers report any backup withholding on IRS Form 945, Annual Return of Withheld Federal Income Tax.

A payee who has had withholding made against their payments can claim that withholding when they file their federal income tax return.

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**Should you have questions relating to these matters, tax, financial, and accounting issues,**

**give us a call at**

**(818) 346-2160.**

**You can also visit us on the web at**

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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, or if you know of someone that could benefit from our assistance feel free in calling us at

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**[www.petemcpa.com](http://www.petemcpa.com)!**

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