

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

Peter S. Muffoletto
Certified Public Accountant



phone (818) 346-2160
fax (818) 346-3130

Backup Withholding

The Internal Revenue Service imposes what is called **Backup Withholding** to ensure that the government is paid taxes on specific types of income generally reported on Forms 1099 and W-2G.

Generally, the payer making such payments to the payees does not generally withhold taxes, and the payees report and pay taxes on this income when they file their federal tax returns.

There are situations when the payer is required to withhold taxes to safeguard that the IRS receives the tax due on this income.

Backup withholding rate is 24 percent.

When the payer must deduct backup withholding

- If a payee has not provided the payer a Taxpayer Identification Number at the time the reportable payment is made, or the payee provided an obviously invalid TIN to the payer.
 - A TIN specifically identifies the payee.
 - TINs include Social Security numbers, Employer Identification Numbers, Individual Taxpayer Identification Numbers and Adoption Taxpayer Identification Numbers.
 - An obviously invalid TIN is one that has fewer than nine digits, more than nine digits, or contains non-numeric characters.
- If the IRS notified the payer that the payee provided a TIN that does not match their name in IRS records, and the payer does not secure the correct TIN from the payee. Payees should make sure that the payer has their correct name and TIN to avoid backup withholding.
- If the IRS notifies the payer that the payee has underreported income from interest and dividends.

Payments subject to backup withholding include:

- Agriculture payments
- Attorneys fees and gross proceeds paid to attorneys
- Barter exchanges
- Commissions, fees or other payments for work done as an independent contractor
- Dividends
- Gambling winnings, if not subject to gambling withholding
- Interest payments
- Original issue discount
- Patronage dividends, but only if at least half the payment is in money
- Payment card and third-party network transactions
- Payments by brokers
- Payments by fishing boat operators, but only the part that is paid in actual money and that represents a share of the proceeds of the catch
- Rents, profits or other gains
- Royalty payments
- Taxable grants

Payer's liability for backup withholding

If a payment was subject to backup withholding, but the payer did not deduct backup withholding as required from the payment, the payer becomes liable for the tax.

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,
or you can visit us on the web at
www.petemcpa.com!**

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

IMPORTANT NOTICE

The contents of this email and any attachments to it may contain privileged and confidential information from Muffoletto & Company.

This information is only for the viewing or use of the intended recipient. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or use of, or the taking of any action in reliance upon, the information contained in this e-mail, or any of the attachments to this e-mail, is strictly prohibited and that this e-mail and all of the attachments to this e-mail, if any, must be immediately returned to Muffoletto & Company or destroyed and, in either case, this e-mail and all attachments to this e-mail must be immediately deleted from your computer without making any copies hereof.

If you have received this e-mail in error, please notify Muffoletto & Company by e-mail immediately.

To ensure compliance with Treasury Department regulations, we wish to inform you that, unless expressly stated otherwise in this communication (including any attachments) any tax advice that may be contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

If you prefer not to remain on our email lists, please let us know.

We will remove you as soon as you notify us.

You may do so by emailing us at

pete@petemcpa.com