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.

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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 call at (818) 346-2160,*

*or you can visit us on the web at [www.petemcpa.com](http://www.petemcpa.com)!*

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