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Forget This Tax Form, IRS Gets 24%

Does every tax form count? Most of the time, the answer is yes, and not just when you are sitting down to fill out your tax return and getting ready to sign under penalties of perjury.

In fact, sometimes what you do long before tax time can have a big impact on your bottom line. Take a simple request for an IRS Form W-9, for example.

What is a Form W-9? It is a request for your taxpayer ID number, typically your Social Security Number, or for a company, your employer identification number. Before paying you, many companies will ask for this form so they can issue you an IRS Form 1099. If you want to be paid, refusing to hand over a Form W-9 can be a mistake. In fact, the IRS says that anytime a payor thinks they may have to report a payment on an IRS Form 1099, they should ask for a Form W-9.

What happens if you say no? After all, no one really wants an IRS Form 1099. But if whoever is paying you doesn't receive a Form W-9 from you, they might withhold taxes on the payment, even if you are not an employee. This "backup withholding" at 24% is the usual consequence of refusing to hand over a Form W-9. Forms 1099 allow computer matching of Social Security numbers and dollar amounts paid and received, so IRS collection efforts are streamlined.

As a result, Forms 1099 are important.

Can you sidestep the tax reporting by being cagey about your Social Security number or taxpayer ID number? Maybe, but it can be pretty tough to do if you want to get paid.

Any Form 1099 requires taxpayer identification numbers, so many payees are asked to supply payers with their Social Security number, or other taxpayer ID, if you are in business.

Usually, the request is to sign and return a Form W-9. If you don't agree, perhaps the money simply will not be paid, or the payor will withhold 24% and send it to the IRS. Still, the Form W-9 may make you uneasy. Doesn't having the form necessarily mean that the company will issue a Form 1099? Usually, but not always. It may just mean that this company won't pay anything to anyone without a signed form.

In addition to supplying a payee's Social Security number, the Form W-9 certifies that the recipient is a U.S. citizen or tax resident and therefore is not subject to the onerous reporting and withholding obligations often required for payments to non-U.S. persons. Thus, many companies have a policy of requiring signed Forms W-9 for any payment.

A payee who provides false or inaccurate information or refuses to hand over a Form W-9 when requested, is subject to 24% backup withholding on the payments. When a payer requires a Form W-9, it is usually not worth fighting about providing it, especially if there is already an understanding about which Forms 1099 will be issued.

Of course, disputes about Forms 1099 are common. The Form 1099 regulations are complex, which causes many businesses to err on the side of issuing the forms.

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