



Landon Mance & Austin Peterson
Financial Planners
Backbone Planning Partners

Businesses Must Report Nonemployee Compensation and Backup Withholding

By law, business taxpayers who pay or receive nonemployee compensation of \$600 or more must report these payments to the IRS. They do this using Form 1099-NEC, *Nonemployee Compensation*.

Generally, payers must file Form 1099-NEC by January 31. For 2021 tax returns. There is no automatic 30-day extension to file Form 1099-NEC. However, an extension to file may be available under certain hardship conditions.

Nonemployee compensation may be 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

What is 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 doesn't generally withhold taxes from certain payments; however, 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%.

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Backbone Planning Partners

**7477 W Lake Mead Blvd Ste 230, Las Vegas, NV 89128
(702) 569-7316**

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7477 W Lake Mead Blvd, Suite 230 • Las Vegas, NV 89128

702-569-7316

www.backboneplanning.com

landon.mance@lfg.com; austin.peterson@lfg.com

Austin Peterson & Landon Mance

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