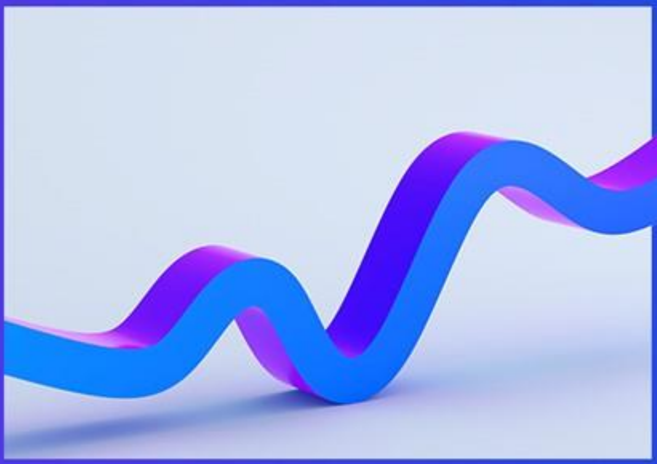
KPMG

Tax IRW Ops Insights Quick Tips & Updates

KPMG Information Reporting & Withholding
Tax Services



Accelerating 1099 Deadlines, Prioritizing Taxpayer Efficiency

By Martin L. Mueller Jr., and Cyrus Daftary

> The recently issued Green Book reintroduced a proposal to accelerate Form 1099 deadlines by two months. Per the Green Book, the proposal would help the IRS detect fraud and foster taxpayer compliance. However, the new deadlines will require taxpayers to update due diligence processes to avoid drowning in year-end filing obligations. In *Accelerating 1099 Deadlines, Prioritizing Taxpayer Efficiency*, we discuss the reasons for the change and administrative issues that payors will need to address in further detail.

Background

On March 11, Treasury released *General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals* (2025 Green Book),[1] detailing proposals set forth under the *Budget of the U.S. Government Fiscal Year 2025* (2025 Budget).[2] Though many proposals have been rolled forward from prior years, there was an interesting addition this year – accelerating Form 1099 deadlines. Under current law, taxpayers must generally furnish Form 1099 recipient statements by January 31, but are not required to electronically submit returns to the IRS until March 31. The proposal would require taxpayers to provide this information to the IRS at the same time that recipient statements are due, effectively accelerating the deadline by two months. The proposal is estimated to generate $944 million over ten years.

---

[1] See *General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals* at https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf.
[2] See *Budget of the U.S. Government Fiscal Year 2025* at https://www.whitehouse.gov/wp-content/uploads/2024/03/budget_fy2025.pdf.

General Form 1099 Reporting Deadlines

Under current law, taxpayers must furnish most recipient statements to payees by January 31. This allows taxpayers time to review the statement and include the information on their tax return well before the April 15 income tax return due date. Payors then have until February 28 to submit most paper returns with the IRS. However, the paper filing deadline has been rendered nearly obsolete due to recently finalized regulations requiring electronic filing for any payors with ten or more information returns determined in the aggregate.[3] Hence, the deadline applicable to most taxpayers, for most Forms 1099, is currently March 31. There are a handful of exceptions to the standard January 31 recipient statement deadline, such as February 15 for Form 1099-B.

The requirement to report Form 1099-NEC by January 31 is a major exception to the standard filing deadline. The IRS found that malicious parties were fraudulently filing tax returns on behalf of individuals in order to obtain refunds. Once the individual finally collected all requisite tax information and attempted to file their return, they were advised that a return had already been filed on their behalf. This led to penalties, interest, and extreme confusion for impacted taxpayers. To counter this issue, Congress enacted provisions that accelerated the requirement to provide all employee wage and nonemployee compensation information by January 31 under the Protecting Americans from Tax Hikes (PATH) Act of 2015.[4] PATH also delayed the earliest date for tax refunds to be paid until February 15, giving the IRS a small window to match the data collected from third parties against amounts claimed by taxpayers. At the time, nonemployee compensation was reported on Form 1099-MISC, which created a mismatch for payors reporting multiple payment streams to payees. The IRS then separated nonemployee compensation into its own form, Form 1099-NEC, with a January 31 deadline.

Green Book Proposal – Accelerating Form 1099 Deadlines

The 2025 Green Book contains a proposal that was originally introduced a decade ago, under the Obama administration.[5] In the first two years[6] it was coupled with a proposal to accelerate Schedule K-1 deadlines to March 15 to ensure that taxpayers received this information prior to filing their income tax returns. Following enactment of the accelerated Schedule K-1 deadline, the proposal[7] was simplified to focus on Form 1099 deadlines. The 2017 fiscal budget estimated that this provision would generate $109 million in tax revenue.[8] No Green Books were issued under the Trump administration, and the proposal was not included in the Green Books issued under the Biden administration, until now.

Under the proposal, section 6071(b) would be amended to require electronically filed information returns (other than those required for nonemployee compensation) to be filed on or before the due date that returns are required to be furnished to payees. Thus, most forms, including Forms 1099-MISC and 1099-K, would be required to be submitted to the IRS by January 31, while Form 1099-B would be required to be submitted by

---

[3] For further information, see the final regulations, 88 FR 11754, at https://www.federalregister.gov/documents/2023/02/23/2023-03710/electronic-filing-requirements-for-specified-returns-and-other-documents. Note that these became effective for returns required to be filed in 2024.
[4] The Protecting Americans from Tax Hikes Act of 2015 can be found at https://www.congress.gov/bill/114th-congress/house-bill/2029/text.
[5] See *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* at https://home.treasury.gov/system/files/131/General-Explanations-FY2015.pdf.
[6] See *General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals* at https://home.treasury.gov/system/files/131/General-Explanations-FY2016.pdf
[7] See *General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals* at https://home.treasury.gov/system/files/131/General-Explanations-FY2017.pdf.
[8] See *Budget of the U.S. Government Fiscal Year 2017* at https://www.govinfo.gov/content/pkg/BUDGET-2017-BUD/pdf/BUDGET-2017-BUD.pdf.

February 15. The Green Book notes that current law prevents real-time matching of information returns to tax returns, as the IRS does not receive third-party information until after most taxpayers file their returns. By requiring the information to be submitted well before income tax returns can be filed, the IRS is better positioned to ensure that taxpayers are reporting all payment streams, preventing erroneous tax refund claims. The accelerated filing will also assist the IRS in detecting fraud and identity theft.

It appears that the recent re-introduction of the proposal is part of a bigger purpose. As noted in the Green Book, changes under the proposal will also support the implementation of the *IRS Inflation Reduction Act Strategic Operating Plan* (the Plan).[9] Under the Plan (and other prior initiatives), the IRS has implemented a number of improvements to assist taxpayers. Notably, the Information Return Intake System (IRIS) became operational in 2023 for payors to electronically file returns, which was particularly useful for small businesses. The IRS has announced plans to expand and enhance this portal, and eventually replace the Filing Information Returns Electronically (FIRE) system. The IRS has also taken significant strides in identifying nonemployee compensation mismatches and processing errors and is working to notify taxpayers about issues at the point of filing, reducing the need for notices and penalties. The IRS also recently launched the Direct File program,[10] which allows taxpayers to electronically file returns directly with the IRS, rather than through third parties. The IRS has announced that the Direct File program was a success in its pilot year,[11] and expects to expand on its capabilities in upcoming years.

Providing Form 1099 data to the IRS earlier means that the information can be populated directly into tax return preparation software. This will help avoid omitted data (e.g., payee failed to receive a statement or neglected to include it) or inaccurate data (e.g., payee transposed numbers when inputting data), reducing errors and ultimately simplifying the tax preparation process for individuals. Earlier information return filing, combined with IRS programs such as IRIS and Direct File, will further enhance the IRS' ability to identify errors and notify taxpayers in real time.

Implementation

The Green Book proposal has an effective date of December 31, 2024, meaning information returns for payments made in 2024 would need to be submitted by January 31, 2025. However, the proposal has quite a journey ahead, making it extremely unlikely that the effective date will apply for 2024 payments. Under current Congressional gridlock, particularly in an election year, the proposal may not even be introduced into either chamber, but the estimated $944 million will surely be considered an enticing, politically feasible, revenue offset for future bills. With numerous favorable provisions under the Tax Cuts and Jobs Act (TCJA) set to sunset in 2025, this proposal could quickly gain bipartisan support. Thus, payors should consider its future likelihood of enactment seriously and work to understand the impact on their due diligence processes.

A major issue that payors often encounter at filing time is inaccurate or outdated payee data. In many cases, vendor data is not properly verified during the onboarding process. Payors may not realize that data is incorrect until year-end or after recipient statements have been delivered. The current two-month lag gives payors time to discuss any issues brought up on the recipient statements in order to make corrections before IRS submissions are due. Notably, incorrect TINs can be updated to ensure that payors do not receive B notices, potentially subjecting them to penalties and interest (and the need to impose backup withholding on future payments). To avoid any issues, payors should ensure payee data is verified using the IRS TIN match

[9] Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan, FY2023-2031*, can be found at https://www.irs.gov/pub/irs-pdf/p3744.pdf.
[10] The IRS Direct File program can be found at https://directfile.irs.gov/.
[11] See Publication 3744-B, *2024 IRA Strategic Operating Plan Annual Update*, at https://www.irs.gov/pub/irs-pdf/p3744b.pdf.

program prior to the first payment. In addition, to avoid stale data (e.g., vendors reincorporating under a different name), payors should perform an annual year-end, if not quarterly, TIN check on all vendors.

State reporting may be a bit trickier under the proposal. Many states require information return reporting based on the payee's residency; however, payees often neglect to inform payors when they have moved, resulting in updates after the recipient statements are distributed. To the extent that states adopt the accelerated federal deadline under the proposal, Form 1099 corrections may be required to address stale vendor lists. Payors can proactively require that payees notify them of any address changes, though the efficacy of this will hinge on the payee's compliance with such terms.

There will certainly be trade-offs required if this proposal makes its way to law. Taxpayers would likely have at least a year to prepare if it becomes a reality but should begin considering process updates that are needed well ahead of time.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**