

Report Summary

Social Security Administration Office of the Inspector General

April 2012



Objective

To determine whether the Social Security Administration (SSA) was appropriately collecting back-up withholding taxes from vendors and reporting those taxes to the Internal Revenue Service (IRS).

Background

Section 3406 of the Internal Revenue Code requires that payers withhold 28 percent of certain payments reported on information returns, such as IRS Form 1099-MISC, *Miscellaneous Income*, if a vendor fails to furnish its Taxpayer Identification Number (TIN) or if the IRS notifies the payer that the TIN is invalid. In October of each year, the IRS notifies payers of possible errors included on the Form 1099-MISC submitted for the previous tax year (TY) by mailing them a *Notice of Possible Payee Name/TIN Discrepancy* (CP 2100 Notice).

To view the full report, visit <http://oig.ssa.gov/audits-and-investigations/audit-reports/A-03-10-11053>.

Collection of Back-up Withholding Taxes from Vendors (A-03-10-11053)

Our Findings

Although the IRS had notified SSA that in TYs 2008 and 2009, it issued 1,245 Forms 1099-MISC, totaling \$155 million, that contained potential invalid name/TIN combinations, the Agency had not determined whether back-up withholding was warranted. SSA staff indicated that this occurred because the component responsible for the back-up withholding procedures did not receive the CP 2100 or *Notice for Federal Government Entities of Tax Identification Number Mismatch* (1313 Notice) issued by the IRS. However, the Agency has taken steps to resolve the invalid name/TIN combinations by contacting the IRS to rectify the delivery notification issue as well as obtain copies of the CP 2100 Notices issued for TYs 2008 and 2009.

Our review of the 1,245 Forms 1099-MISC found that SSA did not need to initiate back-up withholdings for 747 vendor payments, totaling about \$147.5 million, because of updates to the vendors' records and reporting errors. However, the Agency needs to review the remaining 498 vendor payments, totaling approximately \$7 million, to determine whether back-up withholding is required on any future payments to these vendors.

Our Recommendations

We recommended, and SSA agreed to:

1. Review the remaining 498 Forms 1099-MISC and initiate appropriate actions to resolve the invalid name/TIN combinations.
2. Remind staff to capture the legal business name derived from the Central Contractor Registration database when entering a new vendor into the Vendor File.
3. Continue developing a cost-effective method of automatically verifying vendor information with the IRS' TIN Matching program.

SSA agreed with our recommendations.