

The TaxWire

Key Federal Updates

Form 941-X

- Form 941-X, used to correct payroll tax withholding amounts previously reported on Form 941 has been updated to reflect the expiration of COVID-19 programs that expired on April 15, 2024. Lines related to the program, 24, 33a, 33b, and 34 have all been consequently removed. In addition, the instructions indicate that the IRS plans to add the form to the Modernized eFile (MeF) program during 2024.

Form 5498-SA

- An updated Form 5498-SA, used to report details about Health Savings Accounts, Archer, and Medicare Advantage Accounts, has been released for 2024 reporting. The latest version removes Copy C and the related instructions entirely.
- This form used to only be submitted to the IRS on paper but is now available for e-file in the new IRIS system.

Forms 1098-E and 1098-T

- Forms 1098-E and 1098-T, used to report interest paid by students to lenders for qualified student loans and tuition and other educational expenses paid by students to academic institutions, respectively, have been updated for 2024 reporting. For both forms updates include removing Copy C and the related instructions.

Form 1099-K

- The IRS updated the online payee FAQs for payees that may receive Form 1099-K. The updated FAQs explain what makes up the gross amount reported in Box 1 and explain that transactions are reportable as of the date of transaction.

Form 1098-Q

- Instructions were updated to reflect provisions from Secure 2.0 including the extended RMD age (from age 73 to age 85) for some QLACs and updating the maximum deferral benefit from \$145K to \$200K.

Key State Updates

Oregon: Effective January 1, 2024, Oregon requires reporting of individual contractors (I/Cs), described as non-employees that submit Form W-9 and will work more than 20 days during a calendar year. The new requirement requires reporting of individuals that are I/Cs to Oregon's Child Support Program within 20 days of their 'hire date'. The PDFs must be submitted via fax or through the Oregon Employer Services portal.

Iowa: New instructions for Iowa's payroll withholding require employers to modify withholding on employees who have not submitted an updated Form IA W-4. Previous guidance stated employees should withhold \$40 total, regardless of the number of deductions. New guidance states withholding should be \$40 multiplied by the number of allowances claimed on Line 6.

State Modernization

Much like the IRS, states have been following the pattern of modernizing by replacing tax portals which disrupts tax payments and filing processes. These changes come at a time of rapid government modernization efforts, all with the goal of consuming tax information more efficiently while ensuring compliance by taxpayers. Two thirds of all states either modernized systems as of 2023 reporting season or are expected to release new or updated systems ahead of January 2024.

Trends on the Rise

Industry still not receiving C-Notices

Sovos has heard from many banks in the industry that C-notices have not been received from the IRS since 2019. As a reminder, the IRS issues 'Start' and 'Stop' C-Notices to banks that mandate 24% backup withholding on interest and dividend payments for certain payees. Sovos confirmed with the IRS that since collection notices resumed being sent on January 1, 2024, banks should expect to receive C-notices for affected taxpayers soon.

Filing Season Updates – IRS's new IRIS System

- The new Information Returns Intake System (IRIS) has consumed just over 12M forms since its launch in January 2023.
- Sovos developed API capabilities and successfully transmitted 3M returns for a subset of customers for 2023.
- IRIS currently supports the Form 1099 series, but the IRS is set to release support for the Form 1098 series, Form 5498 series, Form W-2G and Forms 3921/3922 this summer.
- The Electronic Tax Administration Advisory Council (ETAAC) recommended in their annual report in June that the IRS develop a formal plan to sunset the FIRE system.

Watch-Outs for Q3

IRS Strategic Operating Plan improvements

- The IRS is making major strides towards achieving the goals outlined in its Strategic Operating Plan. In addition to dramatic improvements in service, the IRS has released major changes to online accounts – for both Individual and Business taxpayers and has recovered hundreds of millions in property and cash from delinquent taxpayers.
- Looking ahead, the IRS expects to make improvements to customer service phone and agent serving systems, continue initiatives in support of their Paperless Processing Initiative, and roll out additional online service enhancements to the taxpayer portals.

Draft Form 1099-DA released

- As we move closer to digital asset transaction reporting, the IRS released a draft Form 1099-DA. A final version is expected to be released ahead of Fall 2024, though the IRS is currently seeking comment from the industry regarding the draft. Final regulations are also expected to be released by the end of summer 2024.

ETAAC Recommendations

- ETAAC (Electronic Tax Administration Advisory Committee) recommended that lawmaker's adopt legislation to amend IRC §6071 to require that Forms W-2G, 1099-K, 1099-R, and any form with a withholding be filed on or before January 31st of the year following the calendar year to which such returns relate. ETAAC reasons that information returns that report Federal income tax withholding provide an avenue for increased fraud and identity theft. The current March 31st deadline for e-filing is after the start of the tax filing season and thereby provides a limited timeframe for upfront review and analysis that could help the IRS detect identity theft and fraud. As evidence of how accelerated filing deadlines are an effective fraud mitigation tool, ETAAC pointed to the significant reduction in fraud the IRS has experienced since implementing the accelerated filing deadlines for Forms W-2 and 1099-NEC through the PATH Act of 2015.

Accelerated Filing Deadlines

- In the annual Greenbook, Treasury recommended that congress enact legislation to require e-filing of all information returns under Sections 6041-6050Z of the code on the same date the payee statements are issued to help detect fraud.

Questions?

Get in touch to learn how Sovos' comprehensive solutions can streamline your business's compliance

SOVOS/TRANSFORM

Event Series

We're excited to announce that we'll be hosting in-person roadshows over the coming months and would be thrilled to have you join us! These events will provide opportunities to engage with industry peers, learn from analyst firms and Sovos experts.

Here are a few of the topics we'll be covering:

- Government System Modernization - IRS/State
 - Journey to True Reconciliation
- Thought Leader subjects such as: Practical applications for AI (Artificial Intelligence) in finance operations

Dates & Locations

San Diego, CA – December 10th, 2024

Chicago, IL – December 12th, 2024

Dallas, TX – February 12th, 2025

Philadelphia, PA – April 8th, 2025

[Click here to learn more](#)