

Key Regulatory Updates

Publication 1220 Released:

Key Changes & Reminders:

- The IRS will continue to require the lowered 10+ electronic filing threshold, which includes all returns counted in the aggregate. Originals and corrections must be filed using the same method.
- Form 15397 should be used for requesting extension of time requests for sending recipient statements. Previously, the IRS required a filer to submit a free-form letter that included certain key information as outlined in the General Instructions for Certain Information Returns publication. Learn more about the [Application for Extension of Time to Furnish Recipient Statements](#).
- FIRE System Logins: The Company Name must match the legal name listed in the IR Application for TCC.
- Combined Federal State Filing (CFSF) code updates:
 - The latest Publication 1220 indicated changes to the IRS' CFSF program, adding Rhode Island (Code 44) and changing codes for Pennsylvania (now Code 42) and Washington D.C. (now Code 11).

2024 W-2 Reporting Specifications released by SSA

The Social Security Administration (SSA) has released tax year 2024 reporting specifications for Form W-2. These new specifications include new fields for reporting Medicaid waiver payments that are excluded from gross income. These payments will not be reported in Box 12 of Form W-2 using code II. This regulation stems from [IRS Notice 2014-7](#).

IRS released electronic filing support for amended Forms 94X

Starting in calendar quarter 3, the IRS began accepting amended versions of Forms 940, 941, 943, and 945 electronically via the MeF (Modernized eFile) system. Sovos has implemented electronic support for these returns within our applications to better serve our clients.

IRS Released Draft Form 1099-DA Digital Asset Proceeds From Broker Transactions & the related Instructions for the Filer.

The IRS has released another updated draft of [Form 1099-DA](#), as well as [draft instructions](#) for filers of the form. The IRS took into account feedback from the industry and removed some onerous fields like requiring a broker to explain why they are reporting the form with a missing TIN. With instructions for the filer now available, some fields that weren't previously understood are proving to be problematic for the industry, such as the requirement to reference a digital asset identifier on the form.

Final drafts of the Form 1099-DA and the Instructions are expected to be released before the end of the year as brokers are required to start reporting effective with 2025 transactions.

Canadian Revenue Agency to require separate submissions.

Effective January 1, 2025, the Canada Revenue Agency will require separate submissions for each return type submitted. For example, T4A slips must be submitted separately from T4 slips if filed by the same payer.

Canadian Revenue Agency to require new slip for reporting Digital Platform Transactions.

Part XX of the Income Tax Act of last year created this new reporting requirement but the CRA has yet to release any specifications or instructions.

The IRS reminded filers that SECURE 2.0 changes impact W-2 and 1099-R reporting for 2024 season for nonelective, and matching contributions designated to Roth SEP or Roth SIMPLE accounts.

	Roth IRA under a SEP Arrangement or SIMPLE IRA Plan	Designated Roth account under an applicable retirement plan
Form W-2 Reporting	Include salary reduction contributions in boxes 1, 3, and 5 (or box 14 if railroad retirement taxes apply) of Form W-2. Report them in box 12 using code F (for a SEP) or code S (for a SIMPLE IRA).	Include designated Roth contributions (made in lieu of elective deferrals) in boxes 1, 3, and 5 (or box 14 if railroad retirement taxes apply) of Form W-2. Report them in box 12 using code AA (for a section 401(k) plan), BB (for a section 403(b) plan), or EE (for a governmental section 457(b) plan).
Form 1099-R Reporting	Report matching or nonelective contributions in boxes 1 and 2a of Form 1099-R for the year in which the contributions are made to the Roth IRA, using code 2 or 7 in box 7, and the IRA/SEP/SIMPLE checkbox in box 7 checked.	Report designated Roth matching contributions or designated Roth nonelective contributions in boxes 1 and 2a of Form 1099-R for the year in which the contributions are allocated to the individual's account, using code G in box 7.

Key State Updates

Indiana added systemic validations to the submission process for Forms W2, WH-1, and WH-3 to ensure that filers include a valid EIN at the time of filing the returns.

Maine:

- Form W-3ME no longer required (used for annual withholding reconciliation) for filing year 2024.
- 2024 W-2 filing specifications released: Bulk filing option added, 10-limit threshold (per IRS), filing due date is January 31, 2025.

Maryland is requiring filers to register in the new Maryland Tax Connect (MDTaxConnect) portal for the purpose of filing 1099s and W-2s in that portal for 2024. Whether you want to bulk file many records or key in W-2s or 1099s separately – the state requires you to register your EIN before you can submit information in the new system.

Montana will implement a new 1099 schema – watch out for new formats!

Key State Updates – Continued

New York quarterly reporting changes coming soon! Look for updates to Form NYS-45 to breakout NYS, NYC and Yonkers withholding tax amounts starting in 2025. Also, NY is removing the 1000 employee limit for filing 1099's and W-2's and is introducing a new bulk filing process for 2024 season.

Washington D.C. clarifies reporting requirements: \$10 threshold for all 1099 Forms required by DC Law but DC DOR had contradicting requirements requiring reporting of all 1099's at a \$600 threshold, Sovos clarified with the DOR that the threshold for 2024 reporting will be \$10 for Forms 1099-INT, DIV, OID and \$600 for all other 1099's due to the state.

State Trend: Electronic Filing Thresholds

Note: This list only includes states that responded to Sovos request for eFile clarification.

No Threshold

- North Carolina
- North Dakota
- New Jersey
- Vermont (if it's a payroll service provider)

Follow IRS (10+)

- Alabama
- Georgia
- Minnesota
- Vermont (unless it's a payroll service provider)

Unique Thresholds

- Illinois (all W-2s)
- Indiana (25 for W2, W2G, 1099R)
- Kentucky (25 for W2, W2G, 1099s)
- Louisiana (50+)
- Maryland (25 or Fed threshold, whichever is lower)
- Washington D.C. (25)
- West Virginia (25)

State Watch-Outs

Transitioning to IRIS format

Tax Year 2024

- New Jersey
- Wisconsin

All states listed still support 1220 format

Tax Year 2025

- North Carolina
- Vermont
- Washington D.C.

When 1220 is no longer support by IRS:

- Alabama
- Georgia
- Indiana
- Kentucky
- Maryland
- Minnesota
- North Dakota
- West Virginia

Pennsylvania to require filers to create three accounts with the state

Last quarter, we told you that the state was likely to require filers to create two accounts – one account for wage reporting and withholding and one account for nonwage reporting and withholding. However, this quarter, the state indicated that they will instead require three separate accounts for each filer– one account for reporting W-2s and related withholding, one account for reporting 1099-Rs and related withholding and one account for reporting all other information returns and related withholding. The state indicated verbally that this has been required since 2020 but will begin enforcing the requirement starting in 2025.

Trends on the Rise

The **Government Accountability Office** calls for overhaul of information reporting thresholds, due dates, and other reporting characteristics. The **GAO** released to congress a third report calling for the IRS to review all 41 information return filing thresholds, due dates, and other characteristics and to work with lawmakers to make changes to the reporting requirements. The report highlights the more than 400M Forms 1099-K and 8B Forms 1099-DA that the IRS expects to receive as a result of recent tax legislation and implores the IRS to better coordinate internally on the effectiveness of information reporting for taxpayers and the IRS.

September 2024

GAO Highlights

Highlights of GAO-24-107028, a report to congressional requesters

TAX ADMINISTRATION

IRS Needs to Take Additional Actions to Prepare for New Information Reporting Requirements

Why GAO Did This Study

IRS uses information returns—forms filed by third parties that provide information about reportable transactions—to help ensure tax compliance. IRS is working to implement two new information reporting requirements: (1) change of existing reporting requirements for payments made through TFSOs and (2) new reporting requirements for digital asset transactions.

GAO was asked to review the information reporting IRS receives and how IRS uses it. This report (1) evaluates the extent that IRS is prepared for additional information reporting and (2) describes the benefits and burdens of information returns. For both objectives, GAO interviewed relevant stakeholders, including outside organizations that interact with IRS and those affected by information reporting; analyzed IRS documentation; and interviewed IRS officials. To describe the benefits and burdens of information returns, GAO reviewed 13 studies from peer reviewed journals and policy organizations.

What GAO Recommends

GAO is making four recommendations to IRS, including updating its policies and procedures to require documentation of risk; incorporating lessons learned into its Form 1099-DA communication strategy; and evaluating its outreach and education efforts. IRS agreed with and intends to implement all four recommendations.

View GAO-24-107028. For more information, contact James R. McTigue, Jr. at (202) 512-6806 or McTigueJ@gaio.gov.

What GAO Found

The Internal Revenue Service (IRS) has taken steps to implement information reporting changes, but GAO identified actions for IRS to be more prepared.

Lowered Form 1099-K Reporting Threshold. The American Rescue Plan Act of 2021 changed reporting requirements for Third-Party Settlement Organizations (TFSO), such as some online marketplaces that connect users to goods and services. Previously, TFSOs were not required to report payments on Form 1099-K unless they exceeded \$20,000 and an aggregate of 200 transactions. As amended, TFSOs must report payments that exceed \$600 annually. IRS decided to delay full implementation for 2 years and did not consistently document risks for its decisions. Documenting risks will help ensure IRS has a sound rationale for decisions and is prepared for the reporting threshold change.

Form 1099-DA. IRS has begun planning its outreach and education efforts for new digital asset (e.g., cryptocurrency) reporting in its communication strategy, but IRS is missing an opportunity to apply lessons learned from its Form 1099-K implementation efforts, such as what did and did not work well. IRS also did not have plans to evaluate its communication efforts. Incorporating lessons learned and evaluating outreach and education efforts could help IRS more effectively prepare for the new reporting and adjust communication efforts, if needed.

Information returns provide benefits, but also create burden. For example, the Joint Committee on Taxation estimated that digital asset reporting will increase revenue by \$28 billion over 10 years after implementation. However, third-party filers can face costs and challenges in tracking information for reporting.

Reported Benefits and Burdens of Information Returns

Benefits of Information Returns

- Provide taxpayers with data that reduce record-keeping burden.
- Enhance the accuracy of tax returns and increase taxpayer confidence.
- Help IRS improve refund processing and capacity to counteract fraud.
- Aid IRS in compliance efforts to identify and collect tax revenue.

Burdens of Information Returns

- Third-party challenges in tracking, preparing, and sending information returns.
- Taxpayer confusion when reconciling their records with information returns.
- IRS use of resources for intake, processing, and storage.

Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews. GAO illustration. | GAO-24-107028
United States Government Accountability Office

Watch-Outs for Q4

Further regulations on digital asset reporting:

Sovos expects more regulations regarding digital asset reporting will be released by the end of the calendar year. Specifically, regulations for changes to Section 6045 Form 1099-DA reporting for non-custodial platforms effectuating sales or transfers. Also, we expect to see regulations amending Section 6045A to require Transfer Statements for transfers of digital assets between brokers.

Form 1099-K: IRS yet to release official guidance:

The IRS delayed the implementation of the lowered \$600 1099-K threshold for tax year 2023 returns, and unofficially indicated in a News Release, they would consider 2024 a transition year, contemplating a \$5K threshold for 2024 transactions. However, until official guidance is given, TFSOs (Third Party Settlement Organizations) are required to report 2024 transactions at the original \$600 threshold.

Questions?
Get in touch with one of our experts

[Explore 1099 Solutions](#)