



Highlights of [GAO-09-238](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

Third party payers, often businesses, reported \$6 trillion in miscellaneous income payments to IRS in tax year 2006 on Form 1099-MISC information returns. Payees are to report this income on their tax returns. Even a small share of payers failing to submit 1099-MISCs could result in billions of dollars of unreported payments. IRS data suggest that payees are more likely to report income on their tax returns if IRS receives payers' information returns.

GAO was asked to examine 1099-MISC reporting including the extent to which payers fail to submit 1099-MISCs; impediments to payers to submitting 1099-MISCs; and whether IRS could better use the 1099-MISCs it currently receives. GAO reviewed IRS documents and compliance data and interviewed officials from IRS, its advisory groups, and others who advise 1099-MISC payers.

What GAO Recommends

Congress should consider requiring payers to report payments to corporations on the Form 1099-MISC. GAO also makes eight recommendations to IRS, including researching the extent of and reasons for payer noncompliance; identifying common reporting errors; and providing more guidance about 1099-MISC requirements. IRS agreed with six of GAO's recommendations but disagreed with evaluating the checkbox option and adding a chart to the 1099-MISC instructions. GAO maintains its support for all recommendations.

To view the full product, including the scope and methodology, click on [GAO-09-238](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

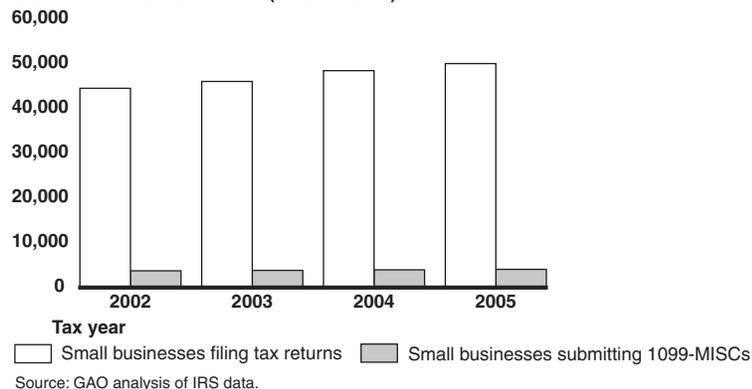
TAX GAP

IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements

What GAO Found

The Internal Revenue Service (IRS) does not know to what extent payers fail to submit required 1099-MISCs, but various sources point to the possibility of a significant problem. For tax year 2005, 8 percent of the approximately 50 million small businesses with assets under \$10 million submitted 1099-MISCs, but IRS does not know how many of the other 92 percent were required to report payments but did not. Many business payments, such as payments to corporations, are not subject to 1099-MISC reporting. If even a small share of the businesses that did not submit a 1099-MISC should have, millions of 1099-MISCs could be missing with significant amounts of unpaid taxes by payees. GAO's prior work in 2003 found significant 1099-MISC payer noncompliance by some federal agencies. IRS could mitigate costs for research on payer noncompliance by building on its existing research programs.

Numbers of Small Businesses Filing Tax Returns and 1099-MISCs, Tax Years 2002 to 2005
Number of small businesses (in thousands)



Payers face a variety of impediments that may contribute to 1099-MISC noncompliance, including complex reporting requirements and an inconvenient submission process. For example, certain payments to unincorporated persons or businesses are subject to 1099-MISC reporting, but payments to corporations generally are not, requiring payers to determine the status of their payees. GAO in the past determined that the benefits in terms of increased tax revenue and improved taxpayer compliance justify eliminating this distinction. IRS agrees, and the Bush Administration's proposal to do so would have required legislative action. Other options to remind payers about their reporting obligations include adding a tax return checkbox asking if payers submitted required 1099-MISCs and adding a chart to help payers navigate the detailed instructions for the Form 1099-MISC.

IRS matches what the payees report on their tax returns to what payers report on 1099-MISCs to detect payees underreporting income and taxes. But IRS does not pursue all mismatches its computers detect. If IRS were to increase payer compliance with 1099-MISC requirements, the number of mismatches would likely increase. However, IRS does not systematically collect information on the causes of mismatches or whether they could be prevented.