

Why are you withholding my funds? Part 2 - TIN Mismatch

What's in a name?

In short, everything. The legal name of any company is “married” to the employer identification number, or tax identification number (TIN) provided when you started your business. Suppose your business begins operating under a different name or TIN from the name or TIN given on the merchant application. It would help if you had mentioned that to your processor; the IRS sees this as a TIN mismatch, which could be a problem.

The Housing and Recovery Act of 2008: Amendment 6050W, Merchant Tax Reporting, requires banks and merchant providers to report merchant payment card transactions to the IRS. Every fall, IntelliPay's partner credit card processors notify all our merchants who have an IRS file with an invalid or incorrect business name or Taxpayer Identification Number (TIN). A second outreach attempt is made in late winter for merchants who have yet to respond after the first notice. If you act within the first ten months of the year, usually, the withholding doesn't need to be activated.

However, if your business doesn't respond, doesn't receive the notices, or waits too long, the IRS requires the processors to begin automatic withholding. The IRS withholding is twenty-four (24%) of the merchants' gross credit card sales.

On top of that, many states impose a hefty percentage fine for non-compliance on top of the twenty-four (24%) percent federal penalty.



Funds withheld during this period are *with the IRS, not the credit card processor*. Therefore, the only way to retrieve those funds is to file business taxes the following year. How can a merchant prevent this withholding?

- Verify that accurate TIN and legal name have been reported to the IRS. Even the most minor difference, like an “&” versus an “and,” could have an impact.
- Update your tax information. Complete a W-9 form and return it to your payment processor as soon as possible.
- Review bookkeeping and accounting practices. Having the proper systems in place will assist with accurate reconciliation information that will help eliminate discrepancies.
- Visit the IRS website and learn more about the [IRS 6050W](#) regulation and Form 1099-K.

Corporate Entities

As a general rule, if one company acquires another with an existing TIN and the acquired company maintains the exact legal name, no further action is required to avoid IRS withholding.

However, if the acquired company's legal name changes, the company will need to go through the process we outlined previously.

Additionally, acquiring entities should require accounting due diligence to ensure that all merchant account funds are collected and properly accounted for, as mentioned in point three above. Here is a real-world example of why this accounting due diligence is needed.

A company accepting one of the major, although one not as widely used, card brands did not adequately reconcile approved transactions against daily deposits settled to their bank account for an extended period. During this period, it was not noticed that only three out of the four major card brands were funding with each batch. While not IRS withholding, the company couldn't recognize millions in lost payment revenue due to a lack of consistency in bookkeeping.

Public Sector Merchants

For public sector entities, TIN mismatches are rare, resulting in data entry errors, and are rarely an issue.

Summary

If you change your legal name, you need to do something as soon as possible to avoid TIN mismatches that can result in costly IRS withholding and State penalties. If you have a TIN mismatch question, the experts at IntelliPay stand ready to help. Call 855-872-6632 or email support@intellipay.com.

This article isn't intended to give you tax or legal advice. Consult your CPA or attorney and read [IRS instructions](#) for TIN numbers, including application procedures, tax laws, and TIN matching, on the U.S. federal government Internal Revenue Service website at [irs.gov](https://www.irs.gov).