

IRS Dramatically Expands Electronic Filing Mandate for Small Businesses



Small and mid-sized businesses that file any federal tax and/or information returns in paper form will generally need to file electronically beginning in 2024.

The IRS released final regulations on February 21, 2023, requiring organizations to electronically file specified returns and other documents. Generally, organizations filing ten or more returns or statements (previously more than 250) in a year must file electronically in 2024. This requirement includes partnership returns, corporate income tax returns, unrelated business income tax returns, information returns, excise tax returns, and many others. The ten-return threshold does not apply to employment tax returns, such as Forms 940 and 941.

Examples

Businesses must aggregate all tax returns to determine whether they meet the ten-return threshold. Examples:

- Company W must file five Forms 1099-INT, *Interest Income*, and five Forms 1099-DIV, *Dividends and Distributions*, totaling ten returns. Therefore, Company W must file all its 2023 Forms 1099-INT and 1099-DIV electronically.
- In 2023, Corporation S, an electing small business corporation, is required to file one 2022 Form 1120-S, *U.S. Income Tax Return for an S Corporation*, two Forms W-2, *Wage and Tax Statement*, two Forms 1099-DIV, *Dividends and Distributions*, one Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, and four Forms 941, *Employer's*

Quarterly Federal Tax Return. Because that totals ten returns during the calendar year 2023, S must file its 2023 Form 1120-S electronically.

Penalties

IRS penalties for failing to file information returns electronically are currently \$290 per Form W-2 or 1099, up to a cap of over \$3.5 million. Businesses with gross receipts under \$5 million have a lower maximum, but the cap is still over \$1 million. Hardship waivers may be available for those that would experience hardship.

Portal

The IRS recently released a new [online portal](#) to facilitate compliance and to help businesses file Form 1099 series information returns electronically. Known as the Information Returns Intake System (IRIS), this free electronic filing service is secure and accurate and requires no special software. The IRIS may be helpful to small businesses that currently file Forms 1099 on paper.

Any corrected information returns must be filed in the same manner as the originals. If the original information return was required to be filed electronically, any corresponding corrected information returns must also be filed electronically.

The IRS explained that the electronic filing mandate is necessary because the agency receives nearly 4 billion information returns per year and still receives nearly 40 million paper information returns. Electronic filing has become more common and economical. Many return preparers and service providers offer electronic-filing services and off-the-shelf software.

Businesses should discuss this with their tax advisors and prepare to comply with the new requirements.

For additional information, see the final regulation ([TD 9972](#)) at <https://www.federalregister.gov/public-inspection/2023-03710/electronic-filing-requirements-for-specified-returns-and-other-documents>

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