

## What the IRS E-filing Mandate Means When Paying Independent Contractors



*Get answers to four frequently asked questions about the new IRS electronic filing mandate, specifically in terms of filing Form 1099-WEC for independent contractors and freelancers.*

### **What is the IRS electronic mandate?**

Beginning with 2024 filings (i.e., tax year 2023), businesses that file ten or more information returns in a calendar year must file those returns (including Forms 1099-NEC) electronically. Previously, only organizations filing over 250 information returns in a calendar year had to file them electronically. However, [new Internal Revenue Service \(IRS\) regulations](#) issued in February 2023 drastically expanded that mandate. (See next section for the impact on businesses that pay independent contractors.)

Under the new regulation, filers will be required to aggregate almost all return types covered by the regulation (e.g., 1099s, W-2s, etc.) to determine whether a filer meets the ten-return threshold. For example, a business that must file two Form W-2 and eight 1099-NEC forms would need to file all of these returns electronically. With few exceptions, as long as the total number of returns — in any combination — is over the ten-return threshold, the mandate applies.

## **What does this mean for a business paying independent contractors?**

Many companies already file their Forms W-2 electronically however, 1099-NEC forms often fall outside of that process. Now, companies will need to rethink how they standardize the process of filing 1099-NEC forms, particularly if they have a large independent contractor workforce (freelancers, 1099 workers). An increasingly important consideration will be having processes and systems in place to help keep workers' records (such as tax verifications and invoices) in order when the time for filing comes.

The difference between 250 returns and ten is significant, and many companies that could file manually previously may no longer be able to do so. It's also been estimated by Ardent Partners that 60% of all contingent/contract labor is unaccounted for in financial planning, forecasting, and budgeting within the average company.\* Considering the factors of compliance risk and rogue spending, it will be especially important for any business engaging with independent contractors to have a centralized view of all the 1099-NEC forms that need to be filed at year-end.

This may mean that designated personnel (perhaps HR) must oversee independent contractor management at the company level. They can help ensure that onboarding and payment for 1099 workers are done consistently across all business units for accurate year-end reporting. Furthermore, automated, centralized processes should be established to reduce administrative burden and manual errors.

## **What are the penalties for a business that doesn't e-file?**

[Penalties](#) under IRC Section 6721 may apply for non-electronic filing of information returns (e.g., Forms W-2, 1099-series, etc.) when electronic filing is required. Such penalties may also apply for non-filing, late filing or incorrect information. The potential penalty in 2023 is up to \$310 per return, up to an annual maximum of \$3,783,000. For businesses with annual gross receipts of \$5 million or less, the maximum is \$1,261,000. Penalty amounts are indexed and change annually.

Hardship waivers may be available for filers that would experience hardship in complying with the e-filing requirements. For additional information on these updated IRS regulations and how they may impact your business, you can read more in this [ADP legislative alert](#).

## **How can technology help your business stay compliant with the updated e-filing regulations?**

For businesses who are looking for support to file their 1099-NEC forms electronically, leveraging an [independent contractor system](#) to automate worker onboarding, payment, and tax filings can be beneficial.

They also help verify US worker tax ID's, set up payment accounts (often with same-day bank verification), and electronically file 1099-NEC forms with the IRS and other applicable state agencies, and furnish such forms to workers.

\*This stat was sourced from this [SpendMatters article](#), which references the following whitepaper, The True Value of Today's Contingent Workforce, authored by Christopher J. Dwyer, Vice President of Research, Ardent Partners

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