



Top 5 Challenges of Tax Identity Management

In tax identity management, businesses of all sizes and sectors are the critical link between information return recipients—such as vendors, contractors, and employees—and government agencies like the IRS. This essential role goes beyond simply collecting tax information; businesses are tasked with ensuring the data is accurate, complete, and compliant before it is reported on information returns like 1099s or W-2s.

At the heart of this process lies two core pieces of information: recipient name and Tax Identification Number (TIN). These data points are the foundation of accurate tax reporting, serving as the identifiers that allow the IRS to verify that recipients are correctly represented in their systems and that payments are reconciled with tax filings.

As the IRS continues to increase penalties and enforcement efforts to close the federal tax gap, the responsibility on businesses to manage tax identity information accurately and efficiently has never been greater. Explore the top challenges businesses face in tax identity management as well as the actionable solutions you need to address them.

Challenge #1: The Ripple Effect of Onboarding Mistakes

The accuracy of the data collected during the onboarding phase forms the foundation for all tax compliance efforts. Yet, many businesses continue to rely on outdated, fragmented, or overly complex systems that hinder their ability to collect and verify information effectively. These inefficiencies often lead to inconsistencies in recipient data, such as TIN mismatches or incomplete records.

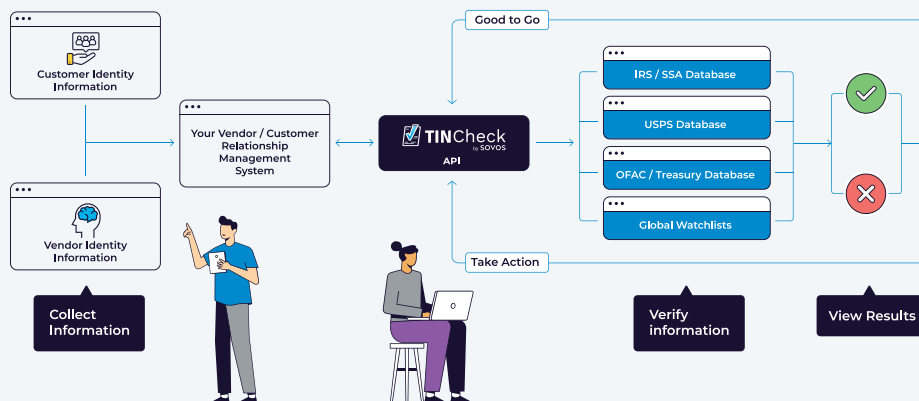
When onboarding processes rely on batch verification or manual checks conducted after the fact, errors are more likely to slip through unnoticed. Whether you are just starting a relationship with a new vendor or are deep in the trenches of tax season, even minor discrepancies can accumulate into a wave of penalties, rework, and reputational risks.

Instead of proactively managing compliance, businesses are then forced into a reactive cycle of correcting mistakes and addressing issues as they arise, often at the cost of time, resources, and employee productivity. To break free from this cycle, businesses need to modernize their approach to tax compliance. Real-time verification, automation, and streamlined processes are all key to building a solid foundation for compliance.

Challenge #2: Rework and Resource Strain

In an ideal world, collecting and verifying recipient information upfront would eliminate most compliance headaches. However, for many businesses, outdated or inconsistent processes lead to inefficiencies both during and outside of tax season.

From spending hours calling recipients to correct information flagged by a B-Notice to chasing down missing TINs that were never collected during onboarding, these inefficiencies add up. In fact, businesses worldwide waste hundreds of hours each year on tasks that could have been avoided with better systems in place.



Long phone calls with recipients, scrambling to reissue W-9s, and resubmitting information returns don't have to be the norm. Each step in a refined tax identity management process transforms a cumbersome web of labor-intensive tasks into an efficient workflow. As a result, it empowers your team to focus on strategic priorities while maintaining compliance and building trust with recipients.



Challenge #3: Vendor Turnover and Data Management

Recipient data is not static. A last name update, a new address, or information that wasn't verified properly from the start can lead to discrepancies that disrupt your compliance workflow. These issues often surface at the worst time—right before tax season—causing delays in your information reporting process and diverting valuable resources away from core business functions.

While turnover and data changes are inevitable, they shouldn't derail your compliance efforts. Proactive data management ensures your team isn't scrambling to address last-minute issues. That's why in addition to verification during onboarding, we recommend staying ahead of any changes by conducting a Bulk TINCheck at least twice a year—once in the spring and again in the fall to avoid the rush of soliciting updates in the final weeks before filing deadlines.

Challenge #4: The Cost of Compliance Errors

IRS penalties are every business's worst nightmare when it comes to tax identity management, especially knowing that they're entirely avoidable. Over the years, the stakes have only grown higher, with penalties for inaccurate information returns climbing to \$310 per return for the 2024 tax season. For businesses managing large volumes of recipients, these penalties can add up quickly, posing a serious financial burden.

IRS B-Notices vs. P-Notices

IRS Notice Type	Description	Action Required
“B-Notice” IRS Notice CP2100	Sent to businesses that file returns with missing or inaccurate Name/TIN combinations. Includes a list of recipients needing corrections.	Place all listed recipients into backup withholding immediately. Solicit correct information and file corrections to resolve discrepancies.
“P-Notice” IRS Notice 972CG	A proposed penalty notice (up to \$310 per return as of 2024) issued when errors are identified in filed returns. Indicates the IRS intends to impose penalties unless corrected.	Demonstrate “reasonable cause” for inaccuracies, solicit updated recipient information, and file corrected returns to avoid or reduce penalties.

Although these IRS penalties are the most immediate and tangible consequence of non-compliance, errors can quickly accumulate, leading to fines from both the IRS and state agencies. With penalties for incorrect filings reaching up to \$310 per return—and annual maximums exceeding \$3,000,000—these costs can severely impact your business's financial health.

Challenge #5: Sophisticated Tax Fraud Schemes

Fraud is such a pervasive challenge in tax compliance because it exploits the inherent vulnerabilities in data accuracy, process complexity, and resource limitations. Fraudsters are constantly developing new ways to bypass security measures and exploit vulnerabilities in tax identity management systems. Examples include:



Synthetic Identity Fraud: Using a combination of real and fake information to create a fraudulent identity.



Misuse of Deceased Individuals' Information: Leveraging outdated records that haven't been flagged through systems like the Death Master File (DMF).



Manipulated Vendor or Employee Records: Exploiting inaccuracies in onboarding processes or changes in recipient data.

While TIN matching is a cornerstone of tax compliance, it is not always enough on its own. By screening against advanced verification lists such as those under the Office of Foreign Assets Control (OFAC), organizations can protect themselves from risks and contribute to narrowing the federal tax gap.

Did you know:

In 2022, the Treasury Inspector General for Tax Administration (TIGTA) found that 2.7 million 1099 forms were issued to individuals who had been deceased for at least three years, contributing to the \$469 billion Federal tax gap.



How TINCheck Simplifies Tax Identity Management

Imagine a world where onboarding mistakes are caught before they enter your system, your team isn't bogged down by tedious rework, and data changes no longer throw your workflow into chaos. TINCheck makes this a reality by combining real-time verification, bulk TIN matching, and advanced fraud detection into a seamless, easy-to-use solution.

Here's how TINCheck helps businesses of all sizes tackle the complexities of tax identity management:

- **Eliminates onboarding mistakes** with real-time validation, so errors never make it into your system.
- **Frees up your team** by automating repetitive rework and allowing them to focus on strategic priorities.
- **Stays ahead of data changes** with proactive bulk checks that keep your records accurate year-round.
- **Prevents against costly penalties** by ensuring information returns are accurate before they're submitted to the IRS.
- **Combats against fraud schemes** with advanced screening against DMF, OFAC, and other global watchlists.

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