What to do when a contractor submits incomplete tax information

When a contractor hands over an incomplete W-9, your first move is to pause payment until the missing information is provided. Without a complete Form W-9, you cannot verify the contractor's taxpayer name and TIN, and you risk backup withholding errors or incorrect 1099 filings. The best course is to send a clear request listing exactly what is missing - taxpayer name, business address, entity type, or TIN - and give a specific deadline for the corrected form.

Incomplete tax information is common during contractor onboarding. A contractor might leave the entity type blank, fail to check the backup withholding box, or provide a business address that does not match their IRS records. Each gap creates a problem for your payee record and for your year-end reporting. Rather than guess the missing details, you need the contractor to complete the form correctly.



Why incomplete W-9s cause trouble

The IRS requires a valid Form W-9 before you make any reportable payment to a contractor. Without the correct taxpayer name and TIN, you cannot match the payment to the right person. If the information is wrong, the IRS may assess a penalty for filing an incorrect 1099. You also need to know whether the contractor is subject to backup withholding, because failing to withhold when required can leave you liable for the unpaid tax.

When the entity type is missing, you cannot tell if the payee is an individual, a partnership, a corporation, or an LLC. That affects how you classify the contractor and which 1099 form to use. A missing business address may seem minor, but the IRS uses it for correspondence, and a mismatched address can delay a TIN matching notice.

How to handle the incomplete form

The first step is to contact the contractor directly. Explain which fields are incomplete and why you need them completed. Be specific: "Please fill in the entity type - individual, LLC, corporation, or partnership - and check the correct box for backup withholding status." Give a clear deadline, such as five business days, and state that payment will not be processed until the form is complete.

If the contractor does not respond, follow up with a second request. Keep a record of each attempt, including dates and the method of communication. This documentation helps if the IRS questions your efforts later. Some contractors may be unfamiliar with Form W-9 or may think certain fields are optional. A short explanation often helps: "The IRS requires this information so we can report your income correctly."

Using online W-9 collection to reduce errors

An online W-9 collection system can help prevent incomplete submissions from the start. When contractors enter their information through a digital form, the system can check for required fields and prompt them to fill in anything missing before the form is submitted. This reduces the back-and-forth and speeds up contractor onboarding.

With an online system, you can also set up automatic reminders for contractors who have not completed their forms. The system can flag common issues, such as a TIN that does not match the taxpayer name, and let you address them early. Over time, using a consistent process to collect W-9 forms helps you maintain accurate records and avoid last-minute scrambles at tax time.

What to check once the form is returned

When the contractor sends back a corrected form, review it carefully before entering the details into your system. Verify that the taxpayer name matches the name on the contractor's

business license or tax return. Check the TIN for obvious errors, such as missing digits or incorrect formatting. Confirm that the business address is complete and matches what the contractor uses for other correspondence.

If the entity type has changed, update your classification for the contractor. A contractor who was an individual last year may have formed an LLC. That changes how you report payments and whether backup withholding applies. Also check the backup withholding box: if the contractor indicates they are subject to backup withholding, you must start withholding at the current rate on all reportable payments.

When to request a new form

You should request a new W-9 any time the contractor's circumstances change - a new business structure, a change in ownership, or a new address. The IRS does not require you to collect a new form every year, but it is good practice to ask for one at the start of each new contract or at least every three years. If you have reason to believe the contractor's information has changed, ask for an updated form to keep your payee record current.

If the contractor refuses to provide a complete W-9, you may need to withhold backup withholding at the default rate on all payments. The IRS considers this a backup withholding event, and you must report the withheld amount on Form 945. Continuing to pay a contractor who will not provide a valid W-9 exposes you to penalties for failing to file correct information returns.

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Practical steps to streamline the process

To reduce incomplete submissions, make the W-9 request part of your standard contractor onboarding process. Send a link to an online form as soon as you agree on terms. Include a brief note explaining why the form is needed and what information is required. This sets expectations early and reduces the chance of delays later.

Keep a template for follow-up requests that you can adapt for each contractor. The template should list the missing fields and give a deadline. Having a standard message saves time and ensures consistency. You can also store the completed forms in a secure digital folder for easy access during tax filing season.

Common mistakes contractors make

Contractors often leave the entity type field blank because they are unsure which classification applies. An individual working as a sole proprietor should check "Individual/sole proprietor." A single-member LLC that has not elected corporate treatment should also check that box. A multi-member LLC or an LLC that elected corporate treatment should check the appropriate entity type. If the contractor is unsure, suggest they consult their tax professional.

Another frequent error is providing a TIN that belongs to a different entity, such as using a personal Social Security number for an LLC. This can cause a TIN mismatch when you file the 1099. Encourage contractors to use the TIN associated with the entity that will receive the income. If the contractor is a disregarded entity, the TIN may be the owner's Social Security number or the LLC's EIN, depending on how the entity is set up.

Contractors also sometimes forget to sign and date the form. An unsigned W-9 is not valid for IRS purposes. Make sure the signature and date are present before you accept the form as complete. If the form is submitted online, the system should require a digital signature or an acknowledgment before submission.

What to do with the completed form

Once you have a complete and accurate W-9, store it in a secure location. You do not need to send the form to the IRS, but you must keep it on file for at least four years after the last payment is made. The IRS may request it during an audit, and having it readily available saves time and stress.

Use the information from the W-9 to set up the contractor in your payment system. Enter the taxpayer name exactly as it appears on the form. Enter the TIN without dashes or spaces. Set the backup withholding indicator based on the contractor's response. If the contractor indicated they are subject to backup withholding, configure your system to withhold the correct percentage on every payment.

When you file your 1099 forms at the end of the year, the information you report should match the W-9 on file. A mismatch can trigger a notice from the IRS, which may lead to penalties. Taking the time to collect accurate information upfront saves you from correcting errors later.

Incomplete tax information is a manageable problem. With a clear process, good communication, and a reliable system to collect W-9 forms, you can resolve most issues quickly. The key is to act promptly, be specific about what you need, and keep good records. That way, you stay compliant and keep your contractor relationships running smoothly.