NATIONAL SOFTWARE INC

IRS-APPROVED IRIS TRANSMITTER

CP2100 / CP2100A NOTICE COMPLIANCE GUIDE

CLIENT ACTION GUIDE: COMPLIANCE REQUIREMENTS, DEADLINES & PENALTY EXPOSURE

About 1099FIRE
1099FIRE is an IRS-approved IRIS transmitter with validated TCC credentials. We provide end-to-end information return filing services so your organization can file through IRIS without needing to obtain your own TCC, build XML infrastructure, or manage the submission lifecycle in-house. Visit 1099fire.com to get started.

What This Guide Covers

- Overview of CP2100A and CP2100B notices
- IRS B-Notice process and timeline
- Required action items (1st & 2nd notices)
- Sample vendor/payee notification letters
- Penalty exposure and penalty abatement options
- Best practices for TIN compliance

Key Takeaway

Receiving a CP2100 or CP2100A notice means the IRS has identified mismatches between the taxpayer identification numbers (TINs) and names you reported on information returns (e.g., Forms 1099) and IRS records.

Failure to respond properly triggers Backup Withholding requirements and potentially significant penalties under IRC §6721 and §6722.

Section 1: Understanding CP2100 and CP2100A Notices

1.1 What Are These Notices?

The IRS issues CP2100 and CP2100A notices to payers (businesses and other entities) that file information returns most commonly Forms 1099 when the IRS detects that the Taxpayer Identification Number (TIN) and/or name reported for a payee does not match IRS records. These are sometimes referred to as "B-Notices" in practice.

CP2100A	CP2100 (B-Notice)
• Issued when fewer than 50 incorrect TIN records are identified • Sent directly to the payer • Comes with a paper listing of payees with mismatches • Same compliance obligations as CP2100 • Generally issued twice per year (around April and October)	• Issued when 50 or more incorrect TIN records are identified • Sent to the payer on CD-ROM or paper • Covers the same TIN mismatch issues as CP2100A • Same response deadlines and required actions • Generally issued twice per year (around April and October)

1.2 Why Does This Happen?

Common reasons for TIN/Name mismatches include:

- Payee provided an incorrect Social Security Number (SSN) or Employer Identification Number (EIN)
- Name on the 1099 does not match the name associated with the TIN in IRS records
- Payee is a sole proprietor who uses a personal SSN but reports under a business name
- Payee changed their name (e.g., marriage) without updating IRS records
- Data entry errors by the payer when completing information returns
- TIN has not yet been assigned or the number is not yet active in IRS systems

1.3 The B-Notice Cycle

The IRS tracks whether a payer has received prior notices for the same payee. This matters because first-time and repeat notices carry different compliance requirements:

Notice Type	Trigger	Key Consequence
1st B-Notice	First mismatch notice for a specific payee within a 3-year period	Must solicit corrected TIN from payee within 15 business days
2nd B-Notice	Second mismatch notice for the SAME payee within a 3-year period	Must begin 24% Backup Withholding immediately; payee must provide IRS-certified TIN (Form W-9 or W-8)

Section 2: Required Action Items

2.1 Immediate Steps Upon Receipt

Upon receiving a CP2100 or CP2100A notice, take the following steps without delay:

1. Record the date you received the notice. The 15-business-day clock begins immediately.
2. Identify every payee listed on the notice from your records.
3. Determine whether each payee has received a prior B-Notice within the last 3 years to classify as a 1st or 2nd B-Notice.
4. Segregate 1st B-Notice payees from 2nd B-Notice payees as the required actions differ significantly.
5. Retain the original notice and all correspondence related to it for at least 3 years.

Critical Deadline

You must send the appropriate solicitation letter to each affected payee within 15 business days of the date you receive the CP2100 or CP2100A notice.

Weekends and federal holidays do not count toward the 15-business-day deadline.

Do not wait to begin this process, time is of the essence.

2.2 Action Items for 1st B-Notice Payees

For payees receiving their first B-Notice within a 3-year period, you must:

Requirement	Detail
Send 1st B-Notice Letter	Mail the IRS-prescribed 1st B-Notice solicitation letter to the payee. Must be sent within 15 business days of receiving the CP2100/CP2100A.
Include a Form W-9	Attach a blank Form W-9 (Request for Taxpayer Identification Number and Certification) with the letter.
Await Response (30 Days)	Give the payee 30 calendar days to respond with a corrected TIN on Form W-9.
If No Response: Begin Backup Withholding	If no response is received within 30 days, you must begin withholding 24% from future payments (Backup Withholding) until a valid W-9 is received.
Document Everything	Retain proof of mailing (e.g., certified mail receipt), copy of letter sent, and any W-9 received in response.

2.3 Action Items for 2nd B-Notice Payees

For payees who have received a second B-Notice within a 3-year period, the rules are stricter. You must:

6. Send the IRS-prescribed 2nd B-Notice letter to the payee within 15 business days of receiving the CP2100/CP2100A.
7. Begin 24% Backup Withholding on all reportable payments to the payee immediately upon sending the 2nd B-Notice letter do NOT wait 30 days as with the 1st notice.
8. Cease Backup Withholding ONLY after receiving one of the following from the payee:
    - A Form W-9 signed under penalties of perjury with a TIN that can be validated by the IRS (for U.S. persons), OR
    - An IRS TIN verification letter (Notice 972CG or Form 147C) confirming the TIN/name combination, OR
    - For foreign payees: a valid Form W-8BEN or other appropriate W-8 series form.
9. A simple W-9 from the payee is NOT sufficient for a 2nd B-Notice you must obtain IRS validation or a Social Security Administration (SSA) letter.
10. Document all actions taken, including dates, certified mail receipts, and copies of all correspondence.

⚠ Important: 2nd B-Notice Stricter Rules Apply

For 2nd B-Notices, Backup Withholding begins immediately not after a 30-day grace period.

A payee cannot 'self-certify' their TIN on a W-9 alone for a 2nd B-Notice. IRS or SSA documentation is required.

Failure to begin Backup Withholding immediately on a 2nd B-Notice payee can result in the payer becoming liable for the unwithheld amounts plus penalties.

Section 3: Sample Solicitation Letters

The following sample letters conform to IRS Publication 1281 (Backup Withholding for Missing and Incorrect Name/TIN(s)). Customize the bracketed fields before sending. Always send via U.S. mail (certified mail is strongly recommended for audit trail purposes).

3.1 Sample 1st B-Notice Letter to Payee

Send this letter within 15 business days of receiving the CP2100 or CP2100A. Attach a blank Form W-9.

Company Name
[Street Address]
[City, State, ZIP Code]

[Date]

[Payee Name]
[Payee Address Line 1]
[City, State, ZIP Code]

Re: Request for Taxpayer Identification Number (TIN) Verification

Dear [Payee Name or Authorized Representative]:

We have received a notice from the Internal Revenue Service (IRS) indicating that the taxpayer identification number (TIN) and/or name we have on file for you does not match IRS records. This discrepancy was identified in connection with information returns (Form 1099) filed for payments made to you.

ACTION REQUIRED:
Federal law (Internal Revenue Code §3406) requires us to solicit a correct TIN from you. Please complete the enclosed Form W-9, Request for Taxpayer Identification Number and Certification, and return it to us within 30 days of the date of this letter.

If we do not receive a completed and signed Form W-9 within 30 days, we will be required by federal law to begin withholding 24% from future payments made to you (referred to as "Backup Withholding"). This withholding will remain in effect until we receive a valid Form W-9 with your correct TIN.

Please note the following:

- If you are an individual, enter your Social Security Number (SSN) on Form W-9.

- If you are a business, enter your Employer Identification Number (EIN) on Form W-9.
- Sign and date the Form W-9 under penalties of perjury.
- Return the completed form to the address above or by email to [contact email address].

If you believe there is an error, or if you have questions about this notice, please contact us at [phone number] or [email address]. If you need to correct your name or TIN with the IRS directly, please contact the IRS at 1-800-829-1040 or visit www.irs.gov.

Thank you for your prompt attention to this matter.

Sincerely,

____

[Authorized Signatory Name]
[Title]
COMPANY NAME
[Phone Number]
[Email Address]

Enclosure: Form W-9 (Request for Taxpayer Identification Number and Certification)

3.2 Sample 2nd B-Notice Letter to Payee

Send this letter within 15 business days of receiving the CP2100 or CP2100A (2nd occurrence for this payee within 3 years). Begin Backup Withholding immediately do NOT wait for a response before withholding.

Company Name
[Street Address]
[City, State, ZIP Code]

[Date]

[Payee Name]
[Payee Address Line 1]
[City, State, ZIP Code]

Re: SECOND NOTICE Required Taxpayer Identification Number (TIN) Verification

Dear [Payee Name or Authorized Representative]:

This is your SECOND NOTICE that the Internal Revenue Service (IRS) has notified us that the taxpayer identification number (TIN) and/or name we have on file for you does not match IRS records.

IMPORTANT: BACKUP WITHHOLDING HAS BEGUN

Because this is the second notification we have received regarding your TIN/name combination within a three-year period, federal law (Internal Revenue Code §3406(d)(2)) requires us to immediately begin withholding 24% Backup Withholding from all reportable payments made to you, effective as of the date of this letter. This withholding has begun and will continue until you provide us with IRS verification of your TIN.

HOW TO STOP BACKUP WITHHOLDING:

Unlike the first notice, a Form W-9 alone is NOT sufficient to stop Backup Withholding at this stage. You must provide us with ONE of the following:

> Option 1 (for individuals with an SSN): A copy of a Social Security Administration (SSA) letter or card showing your name and SSN. Contact the SSA at 1-800-772-1213 or visit www.ssa.gov to request verification.
>
> Option 2 (for businesses with an EIN): A copy of IRS documentation confirming your EIN and legal name, such as your EIN assignment letter (Form CP-575) or an IRS Letter 147C. Contact the IRS Business and Specialty Tax Line at 1-800-829-4933 to request Form 147C.
>
> Option 3 (for foreign persons): A valid Form W-8BEN or other applicable W-8 series form, properly completed and signed.

Once we receive the appropriate documentation, we will cease Backup Withholding on future payments. Withheld amounts will be reported on your Form 1099 and you may claim a credit for amounts withheld on your federal income tax return.

Please respond as soon as possible to minimize the impact of Backup Withholding on your payments. If you have questions, contact us at [phone number] or [email address].

Sincerely,

____

[Authorized Signatory Name]

[Title]

Company Name

[Phone Number]

[Email Address]

3.3 Sample Internal Confirmation Letter (Optional to Notify Payee Backup Withholding Has Stopped)

Once a payee provides acceptable documentation and Backup Withholding is discontinued, you may wish to send the following confirmation letter. This is optional but recommended as good practice.

Company Name
[Street Address]
[City, State, ZIP Code]

[Date]

[Payee Name]
[Payee Address Line 1]
[City, State, ZIP Code]

Re: Confirmation Backup Withholding Discontinued

Dear [Payee Name or Authorized Representative]:

We are writing to confirm that we have received your [Form W-9 / IRS documentation / SSA documentation] dated [date received], and that the taxpayer identification number (TIN) and name combination has been updated in our records.

Effective [date], Backup Withholding at the rate of 24% has been discontinued on payments made to you. Future payments will be made without Backup Withholding, provided your TIN information remains current and accurate.

If any Backup Withholding was applied to your payments, those amounts will be reported on your Form 1099 for the applicable tax year. You may claim a credit for amounts withheld on your federal income tax return.

Please ensure that any future changes to your TIN or legal name are promptly communicated to us by submitting an updated Form W-9.

If you have any questions, please do not hesitate to contact us.

Sincerely,

____

[Authorized Signatory Name]
[Title]
Company Name
[Phone Number]
[Email Address]

Section 4: Penalty Exposure for Non-Compliance

4.1 Overview of Applicable Penalties

Failure to respond appropriately to CP2100/CP2100A notices exposes your business to several categories of IRS penalties. These penalties are assessed per information return and can accumulate rapidly, particularly for businesses that file large numbers of 1099s each year.

IRC Section	Penalty Description	Per-Return Amount (2024)	Annual Cap
§6721	Failure to File Correct Information Returns (incorrect TIN, name, amount)	$310 per return (intentional disregard: $630 or 10% of amount required to be reported)	Up to $3,783,000 (small businesses: $1,261,000)
§6722	Failure to Furnish Correct Payee Statements (incorrect 1099 to payee)	$310 per statement (intentional disregard: $630 or 10% of amount)	Up to $3,783,000 (small businesses: $1,261,000)
§3406	Failure to Withhold Backup Withholding when required	24% of reportable payments made to payee without proper TIN	No cap tied to payment amounts
§6656	Failure to Deposit Withheld Taxes (if backup withholding collected but not remitted)	2%–15% of underpayment depending on days late	No cap

📌 Note on Small Business Caps

The IRS defines a 'small business' for penalty cap purposes as an entity with average annual gross receipts of $5 million or less for the most recent 3 tax years.

Even with the small business cap, penalties of $1.26M+ can be devastating to smaller organizations. Proactive compliance is far less costly than penalty exposure.

4.2 Penalty Tier Structure Under IRC §6721 and §6722

Penalties for incorrect information returns are tiered based on how quickly errors are corrected:

Correction Timing	Penalty Per Return	General Annual Cap	Small Business Cap
Corrected within 30 days of due date	$60	$630,500	$220,500
Corrected after 30 days but by August 1	$120	$1,891,500	$630,500
Not corrected by August 1 (or at all)	$310	$3,783,000	$1,261,000
Intentional disregard (willful non-compliance)	**$630 or 10% of amount whichever is greater**	**No cap**	**No cap**

4.3 Backup Withholding Liability

If you fail to implement required Backup Withholding, the IRS may hold your organization liable for the amounts that should have been withheld (24% of each applicable payment), plus:

- Interest on unpaid amounts from the date withholding was required
- Failure-to-deposit penalties under IRC §6656 (2% to 15% depending on how late the deposit is made)
- Additional penalties for failure to file corrected information returns

Backup Withholding amounts must be deposited with the IRS using the Electronic Federal Tax Payment System (EFTPS) and reported on Form 945 (Annual Return of Withheld Federal Income Tax).

4.4 Penalty Abatement Reasonable Cause

The IRS may waive penalties if you can demonstrate 'reasonable cause' and that the failure was not due to willful neglect. Key factors the IRS considers include:

- You acted in good faith and took reasonable steps to solicit correct TIN information
- You used the B-Notice procedures outlined in IRS Publication 1281
- You documented all solicitation efforts (copies of letters sent, certified mail receipts, responses received)
- The payee provided incorrect information and you relied upon it in good faith

The IRS also provides a safe harbor from penalties for certain de minimis errors (generally, incorrect dollar amounts of $100 or less, or $25 or less for withholding amounts).

Penalty Abatement Best Practice

The best defense against penalties is a robust, documented TIN solicitation process.

Keep copies of every B-Notice letter sent, delivery confirmations, and all W-9s and certifications received.

If penalties are assessed, promptly consult your tax advisor to evaluate abatement options under IRC §6724 (reasonable cause relief).

First-time penalty abatement (FTA) may also be available if you have a clean compliance history.

Section 5: Ongoing TIN Compliance Best Practices

5.1 Collect W-9s Before First Payment

The most effective way to avoid B-Notices is to collect a valid, signed Form W-9 from every vendor or payee before issuing any payment. Establish this as a standard accounts payable control.

5.2 Use the IRS TIN Matching Program

Enroll in National Software's TIN matching program. This service will allow you to Bulk TIN match and or real-time TIN match throughout the year to enhance your Record keeping of your TIN-Match solicitation process.

5.3 Annual W-9 Refresh

Consider implementing an annual process to refresh W-9s for high-volume payees, particularly those with large payment volumes, and any payees who have had prior TIN mismatches.

5.4 Maintain a B-Notice Tracking Log

Maintain an internal log that tracks:

- Date CP2100/CP2100A received
- Payee name and TIN
- Whether this is a 1st or 2nd B-Notice
- Date solicitation letter sent and delivery method
- Date and type of response received from payee
- Date Backup Withholding started and stopped (if applicable)
- Documentation retained

5.5 Train Accounts Payable Staff

Ensure accounts payable and payroll staff understand B-Notice procedures, know how to identify whether a notice is a 1st or 2nd B-Notice, and know when to escalate to management or your tax advisor.

Disclaimer

This document is provided for general informational purposes only and does not constitute legal, tax, or accounting advice. Penalty amounts and thresholds are based on 2024 IRS guidance and are subject to annual inflation adjustments. The specific facts and circumstances of your situation may affect the applicability of the information contained herein. Please consult a qualified tax professional or attorney before taking action in response to an IRS notice.