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In an attempt to reduce potential identity theft, the IRS has announced a two-year pilot project permitting the issuance of IRS Form 1099s with truncated Social Security numbers. The pilot is effective immediately, so companies may want to consider whether to take part in the project.

IRS Announces Pilot Project To Reduce Identity Theft

By William Hays Weissman

In Notice 2009-73, 2009-51 IRB, the IRS announced a two-year pilot project allowing for paper payee statements such as IRS Form 1099s to be issued with a truncated Social Security number. The project, which covers 2009 and 2010, is aimed at reducing potential identity theft and is effective immediately.

Under IRS current rules, a person who is required to file an information return to report certain payments must generally furnish such individuals with a payee statement. These statements generally require a nine digit taxpayer identification number, usually a social security number.¹

The Notice states that “a person’s identifying number is sensitive personal information. A risk exists that this information could be misappropriated from a payee statement and misused in various ways, such as to facilitate identity theft. In an effort to minimize this risk, this notice creates a pilot program allowing truncation of individual identifying numbers on certain paper payee statements.” Therefore, in recognition of these potential risks, the IRS created a pilot program to allow persons that file information returns to truncate an individual’s nine-digit taxpayer identification number on any paper statements for calendar years 2009 and 2010 if certain conditions are met. These conditions are:

- The taxpayer identification must be a Social Security number, IRS individual taxpayer identification number (ITIN), or IRS adoption taxpayer identification number;
- It must be truncated by replacing the first five digits of the nine-digit number with asterisks or Xs (for example, the Social Security number 123-45-6789 could appear on the paper payee statement as XXX-XX-6789); and
- It appears only on a paper statement (including substitute and composite substitute statements) in the Form 1098 series, Form 1099 series, or Form 5498 series for calendar year 2009 or 2010.

In addition, the IRS is requesting public comments on the pilot project. Comments should be submitted by May 1, 2010. The IRS specifically asked for comments on the following questions:

- Should truncating an individual's taxpayer identification number be required for paper statements?
- Should truncating an individual's taxpayer identification number be permitted or required for other kinds of paper statements?
- Should truncating an individual's taxpayer identification number be permitted or required for payee statements furnished electronically?
- Should the payor be required to provide the complete taxpayer identification if requested by the payee?
- Does truncation create difficulties for filers and/or payees?

The pilot is limited in scope and only applies to paper statements issued in the Form 1098 series (mortgage interest), Form 1099 series (various payments including, for example, interest and dividends), and Form 5498 series (IRA and other items). The IRS pilot project does not apply to W-2s issued to employees, to statements furnished electronically, or to the filing of the information returns submitted to the IRS (such as the Form 1096 that accompanies the filing of Forms 1099).

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¹Treas. Reg. § 301.6109-1(a)(1)(i).