

MEKORMA

The Complete AP Guide To TIN Matching And OFAC Screening

Important Validations for
Successful Vendor Management

2025 - 2026 TAX SEASON EDITION

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INTRODUCTION

Before paying the bills, Accounts Payable departments are tasked with managing vendor entry into the accounting system. Critical vendor data has to be gathered, validated, and maintained to ensure compliance with governmental regulations.

For US-based businesses, two important components of vendor compliance are matching Tax-Identification Numbers (TIN) to the IRS database, and screening all entities against the Office of Foreign Assets Control (OFAC) sanctions list.

This guide explains why these validations matter and outlines the best practices and processes to help you stay compliant and minimize risk.

VENDOR COMPLIANCE

Compliance is an important aspect of managing vendors effectively but is often overlooked or not fully completed. Why? Because it's time-consuming and regulations change so often it can be challenging to keep up with.

What is Vendor Compliance?

As a business, you're responsible for knowing who your vendors are and for maintaining compliance with not only IRS requirements, but all United States and local government rules and regulations.

Implementing a good vendor compliance strategy means your AP team has to be aware of those rules and regulations and have the processes and procedures in place to collect the necessary information.

This will help you...



Create and maintain accurate vendor records



Set up requirements for all vendors your company deals with



Resolve issues effectively and promptly if they arise



Reduce fraud risk and penalties

Start With the W-9

If your business transacts with suppliers, you must keep accurate and up-to-date records on file. When onboarding a new vendor, one of the first steps your AP team should take is to ask for a completed W-9 form.

The W-9 is a required form and collecting W-9s should be a standard part of your vendor management process.

What is the Purpose of a W-9?

The W-9 form is used for tax reporting purposes. Any individual or business that must file an information return (such as a Form 1099 with the IRS) needs to obtain the correct Taxpayer Identification Number (TIN) from each payee.

A signed W-9 helps confirm that you've received the payee's TIN—which may be a Social Security Number (SSN), Employer Identification Number (EIN), or another IRS-approved identifier—and certifies that both the TIN and legal name are accurate.

Keeping a W-9 on file for every vendor ensures the following:

- You have payee information for your vendor master file – legal entity name, tax classification, and taxpayer identification number (TIN).
- Certifies the information provided - TIN is correct, the payee is a US entity or persons, FACTA code is correct.
- Validations - B-Notices, Foreign Indicia, EIN beginning with "98".

Originals aren't required for W-9, you only need updated forms if a vendor advises information has changed or the IRS tells you the information is unreliable.

Make the W-9 Form Part of Your AP Policy Process

It's in your best interest and considered a best practice to always require a W-9 before entering the vendor into your accounting system or issuing payment. This will help you avoid penalties and backup withholding requirements, which can be difficult to manage.

Collecting the TIN after onboarding or at the end of the year can be challenging because you're in a time crunch to get the information for your 1099 reporting. You may also struggle to obtain a W-9 from someone who has long since provided the work or service and been paid.

Independent Contractors

As of March 11, 2024 the IRS added 6 new criteria to the Independent Contractor Test (no one factor has more weight than another):

Opportunity for profit or loss depending on managerial skill: This factor refers to whether there is potential for economic success or failure based on the individual's business acumen, judgment, and/or initiative.

Investments by the worker and the potential employer: This factor is based on whether the worker is investing money in capital (i.e., equipment) or is entrepreneurial and supports a business function like expanding their market base like a potential employer would be doing.

Degree of permanence of the work relationship: This factor refers to whether the working relationship is definite in duration, non-exclusive, project-based or sporadic.

Nature and degree of control: This factor is based on how much control an individual has over their work performance, their schedule and the economics of the relationship.

Extent to which the work performed is an integral part of the potential employer's business: This factor refers to whether the function performed is critical, necessary or central to the business, or an independent function, service, product, etc.

Skill and initiative: This factor is based on whether the worker brings specialized skills to the relationship or obtains them from the potential employer.

TIN MATCHING

What is TIN Matching?

TIN (Tax Identification Number) matching is the process of verifying the accuracy of a vendor's TIN, which is usually their social security number or employer identification number. This is often done as part of the vendor onboarding process to ensure that the vendor is properly registered and can receive payment.

Why is TIN Validation Important?

As simple as that may sound, getting the right business name and TIN is not always a sure thing. Many organizations and independent contractors - especially those with DBAs (doing business as) find that completing a W-9 is not always easy. This is where TIN validation comes into play.

When an entity's name and TIN don't match IRS records, this generates an error notice (usually a CP2100 or CP2100A notice). Your organization must follow up with these notices (typically a B-Notice) and attempt to collect the correct information. This can be time-consuming and costly. If errors cannot be settled it results in potential penalties, fees, or withholding tax payments that would otherwise be the payee's responsibility.

Who Should Complete TIN Matching?

The answer is simple – every organization issuing payments to persons or entities in the United States, or for services done by foreign persons/entities in the United States, must have accurate TIN records. As mentioned above, the IRS requires a TIN for all tax filings that your AP department may have to complete. It's not optional, or an "if you would like to," - it's a requirement, and one the IRS will heavily fine you for if you're non-compliant.

Why is TIN Matching & Understanding Form W-9 Tax Classifications Critical?

TIN (Taxpayer Identification Number) matching and understanding Form W-9 tax classifications are critical because they are used to ensure that the correct amount of taxes are being withheld and paid to the government. This helps to prevent fraud and ensure that taxes are being paid correctly.

Understanding Form W-9 tax classifications are also important because it helps to determine the appropriate tax for payments made to the vendor. This includes determining whether they're an individual, corporation, or partnership and whether they're exempt from certain taxes. This information is used to correctly calculate and report taxes.

Best Practices

It's important to properly match TINs to ensure that vendors are properly registered and can receive payment. It is also important for tax compliance, as it helps ensure that the correct amount of tax is being withheld and paid to the government.

Ways to Stay Compliant

- Verify the accuracy of a vendor's TIN before making any payments.
- Use a reliable TIN verification service, such as the IRS's e-Verify service, to verify a vendor's TIN.
- Verify the accuracy of a vendor's name and address to ensure that you are matching the TIN to the correct vendor.
- If you discover an incorrect TIN, perform these actions:
 - Reach out to the payee.
 - Document your attempts to obtain the correct information.
 - Decide whether you'll pay the vendor but withhold a percentage of the payment for tax purposes, or not set up the vendor and pay without a valid TIN match.
- Keep a record of all TIN matching activities, including any discrepancies that are found and how they were resolved. Showing your due diligence to obtain the accurate name and taxpayer identification with the IRS can eliminate penalties and fines later.
- Review and update your TIN matching procedures regularly to ensure that they are effective and compliant with all relevant laws and regulations.

When reaching out for failed TINs, if you obtain corrected information, be sure to run the information through TIN matching again to guarantee the new information is correct. This will streamline your process and save your organization time, frustration, and money.

How to Add TIN Matching to Your AP Process

Each year AP teams across the country prepare their review of suppliers that will require 1099, only to find inaccurate or missing TINs. Why? Because completing a TIN match or verification was not part of your vendor master management process. Instead, take this simple additional step to save hours on the backend trying to obtain updated W9 forms, complete TIN matching, and meet the deadlines for 1099 filings.

But how to best perform TIN Matching? You have a few options:

- 1. Manual matching** - Manual TIN matching involves entering the TIN provided by the vendor into the IRS TIN matching portal. The process is simple; however, setting up the initial account with the IRS can be challenging, and if the person who set up access leaves your company, the process may need to be done all over again.
- 2. Use a third-party service** - Using a third-party TIN matching service involves sending the vendor's TIN to the service, which will verify its accuracy and provide a report. This can be more accurate and efficient than manual matching, but it may involve additional costs.
- 3. Use an integrated software solution** - Lastly, there's integrated software for TIN matching built into your organization's ERP. It allows you to verify a vendor's TIN automatically as part of the vendor onboarding process or when creating a vendor invoice. This can be the most accurate and efficient method, but will most likely require an additional fee.

Ultimately, the best option for TIN matching will depend on your organization's specific needs and resources. Factors to consider include the accuracy and efficiency of the method as well as the upfront and ongoing costs and the level of integration with your existing accounting or ERP system.

1099 FINES AND PENALTIES

No business wants to deal with fines and penalties for issues with their 1099 form submissions and the IRS will charge penalties and fines for a variety of reasons. And in typical fashion, the IRS loves to charge interest on top of any base fines.

If a business fails to issue a form by the 1099-NEC or 1099-MISC deadline, the penalty varies from \$50 to \$280 per form in 2022, depending on how long past the deadline the business issues the form.

There could be penalties for:

- Late 1099s
- Incorrect 1099 forms
- Penalties for “intentionally disregarding” your 1099s

That’s why it’s so important to have a process in place for 1099 submissions, including validating vendor TINs.

Submitting 1099s means including a valid Tax Identification Number (TIN) for each entity. You should obtain a TIN as part of your vendor onboarding process by requiring a W-9 or a tax form for the Request for Taxpayer Identification Number.

But receiving a TIN from a vendor doesn’t mean it’s accurate. This is where TIN matching comes in – you need to verify that the TIN of a business or individual matches the IRS database.

One wrong return equals two separate penalties - and the IRS loves to charge interest on everything.

From [IRS.gov/payments/information-return-penalties](https://www.irs.gov/payments/information-return-penalties)

The IRS will charge separate penalties for failing to:

- File a correct information return on time
- Provide correct payee statements

Understanding What Gets Reported

1099-MISC

- Remember things like “cloud computing”
- Medical Services and Attorneys have NO corporate exemption
- Attorney Gross Proceeds are for services not performed for your organization

1099-NEC

- It is critical to ensure that the Independent Contractor “test” has been completed, and “passed” otherwise the income should be reported on a W-2

Information Return Penalties

They charge penalties for each information return you fail to correctly file on time and each payee statement you fail to provide.

Interest On a Penalty

They charge interest on penalties. The date they begin to charge interest varies by the penalty type and the amount. Interest increases the amount you owe until you pay your balance in full.



Read how this city had to pay \$42K in penalties after a surprise visit from IRS agents. The largest was a \$39,000 penalty dating back to 2017 due to the city not filing its employee W-2 and 1099 tax forms with the federal government by the annual deadline.

How Much Can You Be Fined?

The IRS updates its fines annually. Currently, the fines start at \$50 and go well over \$250 per incorrect, late, or missing 1099. While this may not seem like a lot, the IRS is not known for flexibility in the abatement of penalties, and they will allow payment plans when needed.

In addition to fines, the IRS also issues a CP2100A notice to your organization annually with all payee errors on your prior tax year 1099 reporting. This notice must be handled within 15 business days of the date on the notice, and requires you to:

1. Send a B-Notice to all payees on the notice.
2. Send a W9 request with the B-Notice.
3. Start backup withholding within 30 business days of the date of the notice.

All of this can be avoided by completing a TIN match on the front end of vendor setup to ensure you are accurately reporting 1099 filings.

Charges for Each Information Return or Payee Statement

Year Due	Up to 30 Days Late	31 Days Late Through Aug. 1	After Aug. 1 or Not Filed	Intentional Disregard
2026	\$60	\$130	\$340	\$680
2025	\$60	\$130	\$330	\$660
2024	\$60	\$120	\$310	\$630
2023	\$50	\$110	\$290	\$580
2022	\$50	\$110	\$280	\$570
2021	\$50	\$110	\$280	\$560
2020	\$50	\$110	\$270	\$550

How to Avoid Them?

1. Require a W-9 before issuing any payments. Make it company policy and enforce it!
2. Complete a TIN Match/Verification.
3. Do not create a new vendor without obtaining a successful TIN Match.
4. Ensure the tax classification on your vendor is correct.
5. Is an information return required? If so, which one? Form 1099-MISC or Form 1099-NEC?
6. Understand what is reportable on a Form-1099.
7. Know the due dates and how your organization must file!
8. Monitor IRS.gov for updates to the new regulations for e-filing.
9. Have tools and processes in place to make this process easy for the AP Team.

Form	1099 Due Date to Recipient	Filing to IRS by Mail	E-Filing to IRS
1099-NEC	February 2, 2026	February 2, 2026	February 2, 2026
1099-MISC (No Data in Boxes 8 or 10)	February 2, 2026	March 2, 2026	March 31, 2026
1099-MISC (With Data in Boxes 8 or 10)	February 2, 2026	March 2, 2026	March 31, 2026



OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

What is OFAC Screening?

The United States Department of Treasury's Office of Foreign Assets Control (OFAC) maintains a list of individuals or entities that have been sanctioned by the US government. Sanctions can include anything from economic restrictions to a full ban.

OFAC screening is the process of checking whether a vendor is on that list. It is illegal for US companies to do business with any sanctioned individuals or entities. OFAC screening is typically done as part of the vendor onboarding process to ensure compliance with U.S. sanctions laws.

What is OFAC Screening?

There are several reasons why OFAC screening is important:

- **Comply with US sanctions laws:** OFAC administers and enforces U.S. sanctions laws, which prohibit U.S. companies from doing business with certain countries, organizations, and individuals. By screening vendors for OFAC compliance, your organization can ensure that it's not inadvertently doing business with sanctioned parties and risking fines and other penalties.
- **Reduce risk:** OFAC screening can help reduce the risk of your organization being involved in illegal or unethical activities, such as money laundering or supporting terrorist organizations.
- **Protect your reputation:** Being associated with sanctioned parties can damage an organization's reputation and lead to negative publicity. OFAC screening can help protect your organization's reputation by ensuring that it's not doing business with parties that could harm its reputation.

Failure to comply with sanctions could land your business in quite a bit of trouble. U.S. companies need to ensure they're properly screening vendors for OFAC compliance, or you could face large fines or criminal penalties.

Who Needs to Comply with OFAC?

The short answer is...every US-based organization!

According to the US Treasury, "all US persons must comply with OFAC regulations, including all US citizens and permanent resident aliens regardless of where they are located, all persons and entities within the United States, and all US incorporated entities and their foreign branches."

You may have never heard of OFAC, but that does not minimize its importance. Some say OFAC is one of the best-kept secrets of the US government! If you ignore this requirement, the penalties can be astronomical – and even if you do comply, you may still incur fines.

Best Practices

It's important to note that the OFAC list is continuously updated, so compliance is an ongoing process. Just because a vendor was not sanctioned at the time of onboarding does not mean they never will be. It's important to keep monitoring and updating the compliance program to ensure it stays effective.

Ways to Stay Compliant

- Run OFAC checks on all new vendors, customers, and partners before onboarding them.
- Use a reliable OFAC screening service, such as the OFAC's SDN list, to check whether a vendor is on the OFAC list.
- Keep a record of all OFAC screening activities, including any matches that are found and how they were resolved.
- If you discover you have transacted with a sanctioned organization or individual, report it immediately.
- Review and update your OFAC screening procedures regularly to ensure that they are effective and compliant with all relevant laws and regulations.

Implementing a system within your accounting platform or ERP to monitor and track all transactions can help identify any suspicious activity or transactions.

How to Add OFAC Screening to Your AP Process

Your Accounts Payable team should be educated about the importance of OFAC and trained on how to perform regular screenings. This process should be integrated into the AP workflow, and could happen at one or more points:

- Vendor onboarding
- Upon invoice receipt
- Before issuing payment
- Routine audits

There are a few ways to accomplish OFAC screening and you'll want to determine the most effective way for your business:

1. Manual search against the US Treasury's OFAC Sanctions search list

This is the most-time consuming and least reliable method to maintain.

2. Outsource OFAC screening via a third-party service

This method does not guarantee a sanctioned entity will be identified before transactions are made.

3. Use a software solution that integrates with your accounting or ERP system

This option can save time, money, and energy by automating the process and putting controls in place.



OFAC Fines and Penalties and How to Avoid Them

OFAC penalties are far more excessive than IRS fines for TIN matching, which is why you need to ensure this validation is part of your vendor master setup.

OFAC penalties can be as much as \$250,000 per violation for non-egregious cases; however, if you do not self-disclose a finding of engagement with a party on the sanctions list, and it's considered egregious, you'll find yourself paying the statutory maximum. In 2022 alone, there was a company that settled in April for \$6.1 million in penalties.

It's important to stay informed about OFAC regulations and to be proactive in ensuring compliance with those regulations. This includes implementing a vendor compliance process, obtaining necessary licenses, and reporting potential violations in a timely manner.

To avoid OFAC fines and penalties, it's important to understand and comply with OFAC regulations. Here are some ways to help you stay compliant:

- **Keep up to date** with the OFAC's sanctions programs and changes. This will help you identify individuals, organizations, and countries that are subject to OFAC sanctions.
- Before engaging in any international trade or any financial transactions **add OFAC screening to your vendor onboarding process.**
- If you plan to engage in transactions or conduct business with countries or individuals that are subject to OFAC sanctions, you may be required to obtain a license from OFAC. Be sure to submit any necessary license applications well in advance of any planned transactions to allow sufficient time for OFAC to review and approve your application.
- If you suspect that your organization may have violated OFAC regulations, **you're required to report the potential violation to OFAC** within a reasonable time period, but no later than 30 days after becoming aware of the violation.
- **Implement a vendor validation process** that includes regular training for employees, conduct internal audits and reviews, and purchase vendor validation software to automate this process - these steps can help ensure your business is compliant.

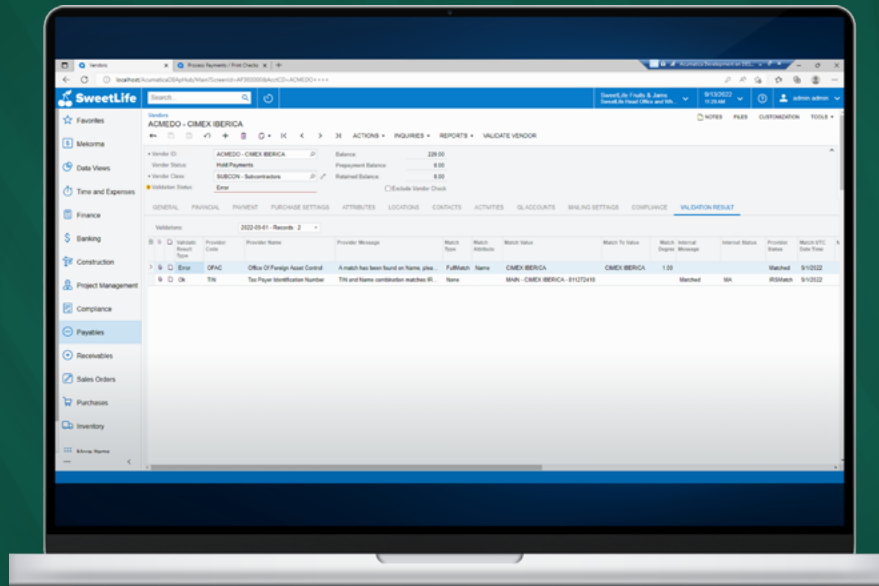
Document Everything: Prove "Reasonable" Cause

One of the best ways to protect your organization is to make sure your AP department is performing these critical validations - and **recording every attempt**. In the event of an audit, documentation will prove you made effort to provide "reasonable cause."

Unfortunately, reasonable cause is not specifically defined by the US Dept of Treasury, but both the IRS and OFAC have described reasonable cause as providing proof that actions were taken to prevent any non-compliant act. Examples include:

- Proof of a successful OFAC check or TIN match.
- Steps the organization has taken to obtain correct information going forward.
- The organization's plan for improving accuracy in vendor management.

MEKORMA VENDOR VALIDATION SOFTWARE



Mekorma Vendor Validation tools automatically verify TIN numbers and check the Office of Foreign Assets Control (OFAC) sanctions list so you don't have to.

Vet your vendors without lifting a finger.

The results are accessible right in your ERP so your team can take necessary action and avoid being charged financially or legally.

OFAC Screening

US organizations aren't allowed to do business with any entity on the Office of Foreign Assets Control (OFAC) global sanctions list.

The list is updated regularly, so it's not enough to only check during the vendor onboarding process. But for most Accounts Payable teams, it may seem impossible to keep up with every update!

Vendor TIN Matching

In a perfect world, every vendor would supply your Accounts Payable team with the correct Tax Identification Number (TIN). That doesn't always happen.

If a discrepancy between your records and the IRS database goes uncorrected, your company could be fined for each mismatch.

We can make the 1099 season that much easier. This means a happier AP Team and ensures tax submissions are processed smoothly.

Add Mekorma [Vendor Validation](#) to your AP tools!



FINAL THOUGHTS

Whether you're feeling confident in your vendor management strategy, or you realized you have some gaps in your process - it's not too late! There's no time like the present to make sure you have up-to-date W-9 forms on record and request missing information as needed.

If you have not completed TIN verifications, look into doing bulk verifications – I guarantee that even if you pay a one-time fee for a bulk match, it'll be cheaper than the potential penalties from the IRS.

Also, make sure you're reviewing vendor expenses so that you can properly prepare your 1099's since miscellaneous (MISC) and non-employee compensation (NEC) are now filed on two separate forms.

The filing deadlines come quickly after year-end; be prepared to file accurate, timely forms and avoid costly fines and penalties. No one wants the mistakes that come from scrambling at the last minute.

Next Steps

- Get the [latest information](#) on your AP software, best practices, and industry news.
- Schedule a [demo](#) to see how the Vendor Validations tools can help you.

About Mekorma

Founded in 1990 and quickly embraced as the go-to check printing solution for Dynamics GP, we continue to evolve with the times – offering AP automation, modern business applications such as Acumatica, and consultation services.

Mekorma helps AP teams master payment automation. Reduce unnecessary manual tasks and maintain a secure and transparent payment process.