

The Importance of Getting Business Names and Tax IDs Correct on Documents



BY ALEX SADUSKY

When starting up a new practice, a dentist is faced with many important decisions – everything from finding a lender, location, staff, and choosing suppliers and equipment, just to name a few. These matters consume a lot of the focus and attention, and rightfully so. They'll directly impact the ultimate level of success of the practice.

However, it can be the smaller, detail-oriented tasks that play the biggest roles in making sure the new business can "hit the ground running". Because just like in our previous article about Early Termination Fees, the details matter. Unfortunately, the seemingly small things can often fall through the cracks. Sometimes the consequences are minute and easily fixable, while other times the ramifications can be costly.

This is especially true for anything that involves documents or applications that require legal business names and tax identification numbers (TIN). Depending on the type of business entity, the TIN is either a federal employer identification number (FEIN) or a social security number (SSN). Now, most of the matters that involve this type of information will receive full attention and care, since they're typically

financial and legal in nature. However, there will be scenarios during the setup process of a new practice where this information plays an important role which may not be as obvious.

SETTING UP YOUR MERCHANT PROCESSING ACCOUNT ACCURATELY

An example is setting up your merchant processing

account, which allows your practice to accept credit cards. By most accounts, this is a straightforward process, especially compared to other tasks at hand during the startup process. But it's also a task that should be handled with full attention to detail. It's imperative that the account setup documents are filled out 100% accurately with the merchant processing company. More specifically,

it's paramount that the legal business name and TIN on those forms exactly match what the IRS has on file based on tax returns.

WHY IS THIS SO IMPORTANT?

Here's a quick history. Back in 2011, to better monitor credit card sales reporting, a federal ruling came down that merchant processing companies were required to report all the transactions of their clients for a calendar year to the IRS. This is done by filing a 1099-K on their clients' behalf. Reporting requirements started in 2012 and businesses had until late 2014 to become compliant.

So now, a merchant account will be automatically flagged for even the slightest difference in legal business name and TIN (one number, letter, symbol, etc.). And the IRS doesn't know, or care, which part is correct, and which isn't. They just see a discrepancy between what the merchant processor submitted and what they already had on file.

WHAT HAPPENS WHEN THE IRS DOES FLAG A DISCREPANCY?

First, the merchant processing company is ordered by the IRS to send a backup withholding notice (b-notice) to the business. This notice informs the business about the discrepancy and

that a correction is required immediately. Additionally, it provides instructions on how to fix the situation, which usually involves submitting a W-9 with the accurate business name and TIN to the merchant processor so they can update your file and send to the IRS.

As in most scenarios involving the IRS, there's a hard deadline to meet or further trouble ensues. And this **trouble comes in the form of the merchant processor being legally required to immediately begin withholding 28% of the daily gross deposits and sending them directly to the IRS, and in certain states a mandatory state withholding as well.** These withholdings will continue every day until the discrepancy is rectified. To make matters worse, even after the information is corrected, the business isn't eligible to get their involuntary withholdings back until filing their next tax return. So, for example, money taken in 2018, won't be returned until after tax filings in 2019. Plus, those funds will be designated for payment towards any money owed in taxes for that year.

Now, it may seem there's ample opportunity for this mistake to be found and fixed, which is true. However, is it even worth the risk, especially given how easily avoidable it is in the first place? All that's required is that you pay close attention to important details. And

maybe just double-checking tax returns or tax creation documentation to confirm the exact legal business name and TIN that's on file with the IRS? Considering the fragile cash flow of most startup businesses, an unplanned, involuntary withholding of a few thousand dollars is one of the very last problems a practice needs to face.

Here's one other thing to keep in mind. Typically, **when it gets to the point of daily involuntary withholdings, it's due to a buildup of other small oversights and miscommunications, either by the doctor or by another party, such as their bank.** For example, there have been situations where the Legal Entity name and Tax ID was incorrectly provided by the bank as part of the bank verification letter. Compounding this, there are examples of when b-notices weren't received because of incorrect mailing addresses on file. Combine these two items with the lack of timely and consistent reconciling of the merchant account batches and deposits, and it's not unfathomable for this to go undetected before it's too late. **28% (or more) of the daily deposits can add up quickly, and lead to real-life instances of doctors being out \$30,000 to \$40,000 before this is discovered.** Remember, the practice does not instantly get the money back once the information is corrected and

verified. Depending on how long until the next tax season, this could be months or even a year.

One final note: A special focus was put on startup dental practices because they need to go through the initial setup process with a merchant company – which is the point at which these mistakes usually happen. If an established practice has been using the same merchant service for several years, chances are that everything they have on file is accurate. However, all the same warnings and recommended attention to detail apply to any practice during the transition to a different merchant service provider.



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The bottom line...
It's often small mistakes that can snowball quickly into potentially crushing situations.