

HOUSE RESEARCH

Bill Summary

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Authors: Nelson and others

Subject: Withholding on certain contractor payments

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Overview

This bill requires construction contractors to withhold 2 percent of their payments to independent contractors who are individuals. This requirement applies when total payments to the individual exceed \$600 for the year (i.e., the threshold at which information reporting is required by federal law).

Section

1 **Withholding.** Requires construction contractors to withhold 2 percent of payments to individuals (other than employees) who perform contract work for them as Minnesota withholding tax. This requirement applies (based on North American Industry Classification System codes) to the following types of businesses engaged in the:

- Construction of buildings
- Heavy and civil engineering construction
- Specialty trade contractors

The requirement applies to payments that are subject federal information reporting (IRS Form 1099). In applying the withholding tax, the individual is treated as an employee. Recipients must furnish the contractor with the names, addresses, and social security numbers. (Federal law imposes a similar requirement to permit 1099 information reporting.)

Section

Withholding would not apply to payments made to entities (corporations, partnerships, LLCs, and so forth).

Effective date : July 31, 2007