

1099's - Guidelines & Best Practices

There are several types of 1099's. Form 1099-INT is for interest income and 1099-DIV if for dividend income that is reported on your personal tax returns. The 1099 that business owners are most commonly concerned with is Form 1099-MISC.

Form 1099-MISC must be filed when independent contractor's services are performed in the course of your trade or business. A trade or business is an activity carried on for gain or profit. You do not have to file a 1099-MISC for payments for non-business related services. This includes payments you make to independent contractors for personal or household service, for example, payments to babysitters, gardeners, and housekeepers. Running your home is not a profit-making activity. However, if you have a trade or business, a farm, a rental activity or any other business enterprise you must file Form 1099-MISC to any independent contractor who has performed services for your business.

In 2015 Congress increased the penalties for not filing 1099 forms with the goal of increasing taxpayer compliance with properly reporting taxable income. Penalties for not issuing form 1099-MISC can be \$50 – \$300 per return with a maximum penalty of \$500,000 - \$3,000,000 per calendar year. For failures or misstatements due to intentional disregard, the penalty per return is \$500 with no calendar year limitation. As you can see, the IRS is very serious about properly reporting these payments.

To whom do you have to issue a 1099-MISC?

Any person to whom you have paid over the course of the *entire year*:

- **At least \$600 in rents, services, prizes and awards, other income payments, and medical and health payments**
- **Gross proceeds of \$600 or more paid to an attorney**
- **At least \$10 in royalties** or broker payments in lieu of dividends or tax-exempt interest

There are certain exceptions from filing 1099-MISC. The most common exceptions are as follows:

- Payments to corporations, S-Corporations, or LLCs taxed as either (except medical/health payments or payments to attorneys)
- Payments for merchandise, telegrams, telephone, freight, storage, and similar items
- Payments of rent to real estate agents

The deadlines for filing 1099's are as follows:

- January 31 – Due date for issuing Form 1099 to person you paid for services
- February 28 – Due date to send IRS copy of Form 1099 by mail
- March 31 – Due date to send IRS copy of Form 1099 - IF you are electronically filing

Jones and Company, CPA's would be happy to assist you in filing these information returns and ensure you properly report any payments requiring Form 1099. Please call our office (915) 585-1739 to set up an appointment to review your payments and filing requirements.

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- Ask new vendors/contractors to fill out Form W-9 whenever you begin a new working relationship and keep it on file. Form W-9 is an informational form that is for your records. Form W-9 is not sent to the IRS. Form W-9 allows you to see to whom you should send Form 1099 and provides all of the information you need to file Form 1099.
- At the beginning of each year, contact all current vendors/contractors to whom you have issued 1099's in the prior year and have them complete an updated Form W-9 to ensure you have the most current information.
- Many accounting software programs (including quickbooks) have a way to designate potential 1099 recipients. If you keep track of individual vendors in your accounting software, it is easier to remember who to send Form 1099 each year.