

Demystifying IRS Form 1099

In which we pierce the veil of mystery surrounding
the hardest-working form in the IRS lineup



Your quick guide to the most unappreciated, misunderstood—and utterly necessary—IRS form

We're happy to see you here, digging into another educational resource developed to offer you valuable information on why Form 1099 is so important to your tax situation.

No one has ever accused the IRS of having too few tax forms available. But we've noticed that not everyone understands the purpose and the full range of information covered by variations of the 1099. That's why we put together this helpful guide to one of the most common—and most important—of the tax forms sent out each year.

We're here to help, so if you have questions or would like to consult with a member of our team, please reach out to our firm today.



Oh, those wacky IRS forms

IRS forms aren't just endless—they can also be endlessly confusing. From 940 to 1120, 1041, 941, W-2...it's enough to drive any taxpayer wacky, too.

Take Form 1099—which, if you're in business for yourself, arguably affects your life in Tax World more than any other. And yet, whether you're a small business owner who needs to issue one or a self-employed contractor or freelancer who receives one, the 1099 is probably one of the most confusing of the tax forms, if only because there are so many versions.

Before you meet with your accountant to file your tax return this year, let's take some of the mystery out of one of the least-understood workhorses in the IRS stable.

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What is IRS Form 1099?

At its most basic, Form 1099 is an information return, used to report income paid or received in certain circumstances. In the business/contractor relationship, what you'll do with the form depends on what side of the desk you're sitting on:


- If you're a business owner, Form 1099 is the record of income paid out to persons or entities who are not your employees (i.e., you don't issue them a W-2 form) during the year.

1099 pro tip: You do, however, need to remember to get a completed Form W-9 for each vendor or person to whom you'll issue a 1099 at the end of the year. Don't forget to have them complete the form before you start work with them, so you don't have to chase them down when it's time to prepare your 1099s.

- If you're a self-employed contractor or freelancer, Form 1099 is the record of income paid to you by someone who is not your employer of record (i.e., they don't send you a W-2) during the year. (Note: We'll use "contractor" to represent the "self-employed contractor or freelancer" from here on in.)

Of course, this is the IRS we're talking about, so you know it isn't quite this basic. For instance, even if you're a self-employed individual, if you pay a gig worker to help you out during the year, you get to both issue and receive a 1099. And if you're a business owner, you'll issue 1099s, but also get a 1099 if your bank interest, dividends or retirement distributions meet the IRS threshold.

Head spinning yet? Then let's get to the demystifying details.



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How is Form 1099 used?

When a business owner completes Form 1099, they send copies of the form at the beginning of the year to both the contractor and the IRS. The contractor uses the information to complete their tax return, and the IRS uses the information to make sure the contractor correctly reports that income.

Is there just one type of Form 1099?

Again, we're talking about the IRS, so if something represents taxable income given to or received from a non-employee. Uncle Sam wants a 1099—and there's a whole lineup of versions to choose from. Here are the most common types of 1099s you might issue or receive:

■ 1099-MISC

As the MISC suggests, this 1099 is a catch-all form used to report income from various sources, including rents, royalties, prizes, awards, payments to attorneys, cash payments for fish and other aquatic life you purchase for anyone who's engaged in the fish-catching trade (yes, really), and many other types of payments. This is the version most people are familiar with, but there's a new form in Tax Town that you'll use this year to report non-employee compensation. Introducing...

■ 1099-NEC

In 2020, the IRS introduced Form 1099-NEC, which replaces the 1099-MISC for non-employee compensation (i.e., the Big Kahuna for business owners and contractors). It's used to report income of \$600 or more paid for services performed by someone who is not an employee. So, if you performed services as a contractor, freelancer or for a side gig, this is the form you'll need to prepare your tax return for tax year 2021. Note to business owners: According to the IRS, you'll also need to file Form 1099-NEC for each person from whom you withheld any federal income tax, regardless of the amount.

■ 1099-G

Reports money received from a federal, state or local government, such as a tax refund or unemployment compensation.

■ 1099-R

Reports distributions from a retirement plan, pension, profit-sharing program, annuity or IRA.

■ 1099-INT

Reports more than \$10 in interest received from a bank, brokerage, credit union or other financial institution.

■ 1099-DIV

Reports dividends received for investments.

■ 1099-SA

Reports distributions from health savings accounts, Archer medical savings accounts or Medicare Advantage.

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If this assortment of 1099s isn't enough, check our chart of less-common 1099 forms below. The IRS offers a detailed Small Business and Self-Employed Tax Center at irs.gov/businesses/small-businesses-self-employed if you'd like to learn more about the varieties of Form 1099 and check out their other small business/self-employed resources.

Even more 1099s

You're less likely to run into these 1099s, but the more you know...

1099-A	1099-B	1099-C	1099-S	1099-LTC	1099-CAP	1099-OID	1099-PATR	1099-Q
Canceled mortgage debt or short sale of home	Income from the sale of some types of securities	Settlement of lender or credit card debt	Proceeds from sale or exchange of real estate	Payout of long-term care insurance benefits	Changes in corporate control or capital structure	Discounted bonds, notes or other financial instruments	Patronage dividends from a co-op	Funds received from a 529 education plan

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We hope this guide has taken some of the mystery out of the 1099 for you. Keep in mind that this is only a high-level overview of Form 1099—your situation may vary, and (say it with us one more time) this is the IRS, so there may be other factors to keep in mind, as well.

Check with us if you have questions or if you'd like assistance navigating the hopefully-not-so-mysterious-anymore 1099.

We're accountants, we know our IRS forms, and we are ready to help!

Just click the **GET IN TOUCH** button and complete the brief form or give us a call. We look forward to hearing from you!

