

Everything you need to know about 1099s

A small business guide to understanding and managing 1099s with confidence



Your guide to everything 1099

We're happy to see you here, digging into another educational resource developed to help you feel confident while managing 1099s for your business and your employees—and ensuring your business is in full compliance with tax regulations.

Why understanding 1099s is essential for your business

Whether you're running a one-person shop or managing an entire team, you need to know how to correctly handle 1099s. It's important to stay on the right side of the IRS while also maintaining strong relationships with the talented people who contribute to your business. Issuing these forms isn't just about checking a box for compliance—it's about keeping your finances transparent and organized.

With the rise of the gig economy, understanding 1099s is more important than ever. In fact, **36% of workers** in the US are in the gig economy. And with the rise of remote work, many businesses are more likely to work with contractors, consultants and freelancers on a regular basis. The **number of freelancers** has grown to about 76.4 million in 2024, with projections to reach 90.1 million by 2028.

If your business pays independent contractors, it's crucial that you stay compliant with IRS regulations. That means issuing the correct tax forms and issuing them on time. Failing to send them out on time—or



not sending them at all—can lead to penalties that will quickly add up. Not to mention, mishandling 1099s can damage your working relationships with contractors, who rely on these forms to accurately report their income.

This guide is designed to give you a comprehensive understanding of how 1099s work and what you need to do to manage them properly. Our goal is to ensure you not only understand the nuts and bolts of managing 1099s but also feel confident that you can handle this essential part of running a small business.

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What is a 1099?

The 1099 form is a tax document that reports various types of income other than wages, salaries and tips. This form is most commonly issued by businesses that hire independent contractors, freelancers or any non-employee for services. But it's important to note that there are several variations of the 1099, and each applies to a different type of income.

If you're a business owner who hires contractors, issuing the correct 1099 form is essential for staying compliant with tax laws. In this section, we'll break down the most common types of 1099s, who they apply to and what you need to know about them.

1099-NEC

The 1099-NEC (non-employee compensation) form is probably the most relevant for small businesses. It's used to report payments made to freelancers, independent contractors and other non-employees for services rendered (e.g., consulting, graphic design, website development) during the year. If you paid someone \$600 or more in non-employee compensation during that tax year, you're required to issue this form. However, if the contractor is registered as a C corporation or S corporation, a 1099-NEC isn't required. (You can find this information on the contractor's W-9.)



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When do you issue a 1099-NEC?

Your business needs to file a 1099-NEC for each contractor under the following conditions:

- The payment was made to someone who isn't an employee.
- The payment was made for services in the course of your business or trade.
- You paid an individual, single-member LLC, partnership or LLC tax as a partnership.
- The payments totaled \$600 or more during the tax year.

Why is this important?

For freelancers, contractors and other non-employees, the 1099-NEC allows them to report their income on their taxes. For your business, it's a necessary step to show that you've properly tracked and reported payments made outside of payroll. Failure to issue a 1099-NEC can result in penalties (more on that later).

Get more details about the 1099-NEC from the IRS [here](#).

1099-MISC

Before the introduction of the 1099-NEC form, the 1099-MISC (miscellaneous income) was used to report non-employee compensation. Now, this form is used to report miscellaneous income such as rent, prizes and awards.

When do you issue a 1099-MISC?

Your business needs to file a 1099-MISC form under the following conditions:

- If you've made payments greater than or equal to \$600 to a non-employee.
- If you've made payments of \$600 or more to a lawyer or law firm.
- If you pay \$10 or more in royalties.
- If you issue prizes and awards of \$600 or more.

Get more details about the 1099-MISC from the IRS [here](#).

Other 1099s to note

As a business owner, you'll most likely be using the 1099-NEC—if you paid someone \$600 or more during the tax year—the majority of the time, but there are other types of 1099s you should be aware of.

1099-INT

The **1099-INT (interest income) form** reports interest income, usually from banks or other financial institutions. If your business earned \$10 or more in interest during the year, the institution paying that interest is required to send you a 1099-INT.

1099-DIV

The **1099-DIV (dividends and distributions) form** is used to report dividend income and capital gains distributions from investments. You'll likely receive this form if your business owns stock or mutual funds and receives dividends.

1099-K

The **1099-K (payment card and third-party network transactions) form** reports income received through payment card transactions or third-party networks, such as credit cards, PayPal or other online payment platforms.

1099-S

The **1099-S (proceeds from real estate transactions) form** is used to report income from the sale or exchange of real estate.

Knowing which 1099 forms apply to your business is important for staying compliant with the IRS. Each form has specific requirements based on the type of income or payment being reported. And whether you're working with independent contractors, earning interest on savings or managing real estate sales, knowing the correct 1099 to issue is an important part of your tax responsibilities.

How to e-file 1099s

Filing 1099s is a necessary task for many small business owners, but thanks to technology, the process has become a lot easier these days. No longer do you have to manually fill out paper forms, run them to the mailbox and wait for confirmation. Now, you can file your 1099 forms electronically in a fraction of the time, with fewer errors and instant confirmation from the IRS.

Step-by-step guide to filing 1099s electronically

If you're ready to file your 1099s, here's a short guide to walk you through the process.

① Collect the necessary information

Make sure you have all the information you need, like the contractor's legal name, their address, Social Security Number (SSN) or Employer Identification Number (EIN), and the total amount paid to the contractor during the year.

Pro tip: Request W-9s from all contractors at the time of hiring to obtain the information you need.

② Choose your filing method

There are two ways to file 1099 forms electronically:

- a. IRS FIRE.** The IRS offers this free-to-use filing information returns electronically (FIRE) system for businesses that file a large number of forms.
- b. Third-party software.** For many small businesses, using third-party software like QuickBooks®, Gusto, Tax1099 and TurboTax allows you to generate, file and submit 1099 forms electronically.

③ Prepare your 1099 forms

Make sure the following details are correct before you submit your forms:

- a.** Your business name, address and EIN.
- b.** The contractor's name, address and SSN/EIN.
- c.** The total amount paid to the contractor during the tax year.
- d.** The correct 1099 form type (e.g., 1099-NEC, 1099-MISC).

④ File your 1099 forms with the IRS

If you're using the FIRE system, you'll upload the file containing all your 1099 data directly into the IRS system. If you're using third-party software, you'll submit the forms through their platform. Most software automatically e-files the forms with the IRS and sends copies to your contractors.

⑤ Distribute copies to your contractors

In addition to filing your 1099s with the IRS, you must also provide a copy to each contractor. Many electronic filing services will automatically distribute them via mail or email, but confirm that the forms are issued to each contractor.

What is the deadline for sending 1099s?

The IRS sets a firm deadline for sending out 1099s. The deadline is **January 31** of the year following the tax year for both sending 1099s to contractors and filing them with the IRS. For example, 1099s must be issued by January 31, 2025, for tax year 2024. If January 31 falls on a weekend or holiday, the deadline is extended to the next business day. This deadline is specifically for the 1099-NEC form (if your business paid more than \$600 to vendors or contractors). All other 1099 forms are due by **March 31** if filed electronically, or they must be postmarked by **February 28** if sent by mail.

Pro tip: Set a reminder in your calendar a few weeks before January 31, and make sure you have everything ready to go by mid-January to avoid any last-minute issues.

What happens if you miss the deadline?

If you fail to send 1099s by the January 31 deadline, it can result in penalties. And the longer you wait to file, the more you're going to owe. Penalties can range from \$60-\$330 per form (**tax year 2024**) depending on lateness:

- \$60 per form if correctly filed within 30 days of the deadline; the maximum penalty is \$232,500 per year.
- \$130 per form if correctly filed more than 30 days late but before August 1; the maximum penalty is \$664,500 per year.
- \$330 per form if correctly filed after August 1 or not at all; the maximum penalty is \$1,329,000 per year.

Pro tip: Don't miss the deadline. But if you do, file the forms as soon as possible.

What can contractors do if they don't receive a 1099?

If a contractor doesn't receive a 1099 by the deadline, they have a few options available to them:

- ① They can contact you (the business) and request the form.
- ② They can report the income with the 1099 by using their own records, like invoices, bank statements or contacts, to report the correct amount of income.
- ③ They can file a complaint to the IRS using **Form 3949-A**, reporting your business for failing to issue the required form.

Pro tip: Send out 1099s on time!

Final tips and tricks for staying on top of 1099s

You can easily avoid late filing and penalties by...

① Collecting W-9s early

Before you pay any contractor, request a W-9 from them. This ensures you have the information you need to issue a 1099 at the end of the year.

② Set internal deadlines

To avoid missing the January 31 deadline, set an internal deadline to have 1099s ready by mid-January.

③ Stay organized

Keep detailed records of all contractor payments throughout the year.

④ Consult with a tax professional

If you're unsure about your 1099 obligations or how to handle them, it's always a good idea to consult with an accountant, CPA or tax advisor.



Summing it all up

We hope this eBook will help you understand the forms and information you need to correctly file and issue 1099s. If you'd like an experienced guide to assist you with 1099s—someone like us, your trusted accounting firm, who can handle this for you—we're available and 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!