

Form 1099 Filing Requirements: *What you need to know*

The IRS works constantly to improve income reporting by taxpayers. One tool they employ is requiring businesses to file “information returns” that tell the IRS about amounts the business paid out that should be reported by the recipients as income.

Probably the most familiar of these information returns is the Form W-2 which reports wages paid to employees. Another information return is Form 1099, which is actually a group of more than a dozen different forms that report other types of income to the IRS.

Recently the IRS ramped up its compliance efforts by asking businesses to answer questions about their 1099 filings when they file their income tax returns. This added IRS scrutiny, coupled with steep noncompliance penalties, make it important for every business to check their 1099 filing requirements each year.

Here’s what you need to know about Form 1099 and the filing requirements your business may have.

1099-MISC - The Major Business Form

Form 1099-MISC is the form most frequently used by small businesses to report a wide variety of payments, and it is probably the 1099 that causes the most confusion. Here’s what you need to know.

A Form 1099-MISC is used to report payments for services provided to your business by unincorporated vendors when those payments total \$600 or more for the year. Typical payments include rents, royalties, and compensation to independent contractors, such as consultants, web designers, accountants, lawyers, and cleaning services.

The IRS has set out five conditions for payments that must be reported using Form 1099-MISC. All of the following five conditions must be met:

1. The payment was made to a nonemployee.
2. The payment was made for services provided to the trade or business.
3. The payment was made to an unincorporated entity (except for payments to attorneys and medical and health care payments).
4. The payment or payments generally totaled \$600 or more for the year.
5. The payment was not made electronically (e.g., with a credit or debit card or with PayPal).

Deadlines - When You Must File

January 31 – One copy of the Form 1099 must be given to the recipient of the payment by this date of the year following payment.

February 28 – One copy of the Form 1099 must be sent to the IRS by this date of the following year unless the filing is done electronically.

Penalties - A Matter of Intent

The penalties for failing to file Forms 1099 range from \$30 to \$250 per form, depending on how late your filing is and whether or not the failure to file was intentional. Total penalties can go as high as \$500,000 for businesses with gross receipts under \$5 million or \$1.5 million for those with gross receipts over \$5 million.

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