

Everything You Need to Know About Filing 2020 1099s

Now is the time to plan for your 2020 information return filing & compliance requirements.

Not sure if your company needs to file Form 1099? Here are some common examples of types of payments that require Form 1099 Information Return reporting:

- Professional Fees (Attorney, Accountant) (\$600 or more during the year)
- Rental Payments (\$600 or more during the year)
- Payments to Subcontractors (\$600 or more during the year)
- Commissions (\$600 or more during the year) (for non-employees)

Why should you file your 1099/1096 returns?

The IRS wants to ensure individual and business taxpayers are reporting all their income, therefore the IRS requires information return reporting, such as the Form 1099. Businesses complete the 1099 forms for payments they made during the year and provide copies to the vendors, the IRS, and some states. The IRS then uses the 1099 form to match up and verify information that the recipient reports on their income tax returns.

For all business returns (including Form 1040 Schedule C, Form 1040 Schedule E, partnership, corporate, and nonprofit), the IRS asks taxpayers for an affirmative declaration of whether the business is required to issue 1099s, and if the business did in fact file the 1099s for the current tax year. These two questions on the Tax Returns were added beginning with the 2011 tax year. Since the taxpayer and the tax preparer are both signing off on the return, under penalty of perjury, an incorrect answer to this question could pose issues for both you and your tax preparer. The IRS may assess penalties on non-compliant taxpayers for 'Failure to File Correct Information Returns by the Due Date.'

Updates for 2020 calendar year:

The 1099-NEC (non-employee compensation) will replace most of the 1099-MISC forms that are filed, but not all of them. The IRS says that trades or businesses need to issue Form 1099-NEC if the following conditions are met:

- You make a payment to someone who is not your employee
- You made a payment for services during trade or business
- You made the payment to an individual, partnership, estate or, in limited cases, a corporation
- You made payments to the payee of at least \$600 during the year

Form 1099-MISC will still be used for other things, like reporting rents paid, royalties paid, nonqualified deferred comp and Section 409A deferrals.

What You Need to Do:

If you own a business, are self-employed, or you rent property, review all your 2020 vendor payments to determine if a 1099 will be required to be issued for the 2020 tax year. Get all these vendors to complete a W-9 form and keep for your records. Many companies will not pay any new vendors without first obtaining a W-9 form.

You are required to file a separate Form 1099 Information Return to each respective payee by January 31, 2021. In addition, Form 1096 Information Return that reports all payments made to each 1099 payee (in total and by payee) must be electronically filed by January 31, 2021 (for NEC) and March 31, 2021 (for MISC/INT). If sent late or if not sent at all the IRS may assess penalties which can be quite costly.

Other Common 1099s you may be required to file:

- Form 1099-INT Required to report business interest paid of \$600 or more by your trade or business other than to banks or other financial institutions.
- Form 1099-DIV Required to report dividend payments of \$10 or more; \$600 or more for liquidations.
- Form 1099-B Required to report any proceeds from broker and barter transactions.
- Form 1099-R Required to report distributions of \$10 or more from retirement or profit-sharing plans, IRAs, SEPs, annuities, or insurance contracts.
- Form 1099-S Required to report proceeds generally of \$600 or more from real estate transactions.
- Form 1099-C Required to report cancellation of debt of \$600 or more.