



SWARTZENTRUBER
&
COMPANY

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Did you make any payments that are required to be reported on a 1099?"

First, keep in mind that the "general rule" is that business owners (see next paragraph for who this includes) must issue a Form 1099-NEC to each person to whom you have paid at least \$600 in **services** (including parts and materials), **prizes** and **awards** payments. Form 1099-MISC is issued when you have paid at least \$600 in **rent, other income, and attorney fees**. You don't need to issue 1099s for payment made for personal purposes.

As your tax preparer, we are required to answer this question on all individual tax returns that include a **Schedule C (sole proprietor) or F (farms) as well as on Partnership and Corporation** tax returns. If the answer is YES, then we have to answer a second question that reads, "If so, did (or will) you file all required Form 1099's?"

In preparing your return, we rely on your representations that you understand and have complied with these requirements. If you have questions about these issues, please contact us.

We will assume you have no 1099s to file unless you inform us otherwise.

If information is detected that a 1099 should have been prepared but was not, we are obligated to answer the IRS question accordingly. At that time, you can file the 1099 late, or risk under audit the penalties for non-compliance. **If 1099s are not prepared, those expenses would not be allowed in the case of an IRS audit.**

Penalties for not filing Form 1099:

The penalties for failing to file Forms 1099 can be significant. One penalty applies for failing to timely file a complete and accurate form with the IRS. An additional penalty applies for failing to provide the statements to the recipients of the payments. The calculation of both penalties depends on when the failure is corrected.

When do Forms 1099-NEC and 1099-MISC have to be filed?

For 2022 payments, Forms 1099-NEC and 1099-MISC must be filed with the IRS by **1/31/23**. The forms must be mailed to the recipient no later than **1/31/23**.

Reporting Requirements for Form 1099-NEC

Reporting rules apply to any business (whether a sole proprietorship, partnership, or corporation) that makes a reportable payment in the course of its trade or business. Payments are reportable when all the following conditions apply:

- The payment was made to a nonemployee.
- The payment was made for services rendered to or on behalf of the payer's trade or business.
- The payment was made to an individual, partnership, estate, or in some cases, a corporation
 - Note: Payments to corporations (including S corporations) generally don't need to be reported.
 - **Payments to attorneys and veterinarians are the most notable exception to this rule. All payments, no matter amount or type of entity are reported on a 1099-NEC or 1099-MISC for these two groups.**
- Payment(s) to the payee totaled **\$600** or more during the year (including payment for parts or materials used by the payee in rendering the services if supplying the parts or materials was incidental to providing the service).

Nonemployee Compensation (Box 1)

Nonemployee compensation includes commissions, prizes, awards, and other forms of compensation for services rendered to the payer's trade or business. Examples include the following:

- Fees paid for professional services such as fees paid to attorneys (including corporations), accountants, architects, contractors, and engineers.
- Fees paid by one professional to another, such as fee-splitting or referral fees.
- Payments by attorneys to witnesses or experts in legal adjudication.
- Payments for services, including payment for parts or materials used to render the services if supplying the parts or materials is incidental to providing the service. For example, the total insurance company payments to an auto repair shop for a repair contract showing separate amounts for labor and parts are reported if furnishing parts was incidental to repairing the auto.
- Commissions to nonemployee salespersons that are subject to repayment but not repaid during the calendar year.
- A fee paid to nonemployee, including an independent contractor, or travel reimbursement that the nonemployee did not account to the payer, if the fee and reimbursement total at least \$600.
- Payments to nonemployee entertainers for services rendered.
- Exchanges of services between individuals in the course of their trades or businesses. For example, if an attorney represents a painter for nonpayment of business debts in exchange for the painting of the attorney's law offices, the amount reported by each on Form 1099-NEC is the FMV of his or her own services performed. However, if the attorney represents the painter in a divorce proceeding, the divorce is an activity that is unrelated to the painter's trade or business. Therefore, the attorney reports the FMV of his or her services on Form 1099-NEC, but the painter does not report the value of painting the law offices on Form 1099-NEC because the work is in exchange for legal services that are separate from the painter's business.
- Taxable fringe benefits provided to nonemployees.
- Payments of director's fees and other remuneration to members of the board of directors, including payments made after retirement.

Did you pay rent, attorney fees, or other income that is not considered non-employee compensation to a person or other entity?

You may have an event that requires you to send a 1099-MISC. Contact our office to discuss your situation.

If you have qualifying payments that require 1099s to be prepared, you are responsible to furnish our office with the necessary information. If you need assistance with this, please contact us immediately.

- QuickBooks file with the VENDOR marked as 1099 eligible along with their Social Security number or Federal Identification number entered on the vendor setup.
- List of people/businesses with SS# or EIN, address, and total amount paid during 2020.

1099-INT – business who pays \$10 or more in interest, this form must be prepared.

The most accurate way to obtain the necessary information from your payee, is to request a completed ***IRS Form W-9***. You can obtain a blank copy of this form by going to www.IRS.gov or visit our website at www.SwartzCompanyCPA.com.

If using QuickBooks to track your payments to vendors:

- Update the 1099 information on the vendor page by checking the 1099 eligible box and completing their identification number (SS# or EIN).
- The Identification number must correspond with the vendor name appearing on the 1099.
 - In other words, if a company name is listed, then their EIN must appear on the 1099. If the vendor only uses a SS#, then the person's name must be listed on the 1099.
- Verify the address is current and accurate.

Clients Will be charged an hourly fee for any additional setup time that is required to complete the 1099 process.

If you feel you have payments that require a Form 1099 to be prepared and need our assistance, please contact our office right away at 330-345-7353.