JUST THE BASICS:

IRS Form 1099-Misc

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An IRS Form 1099-MISC is used to report certain types of payments made in business to the IRS and to the person you have made payments to. This person/business could be your custodial or maid service or perhaps your gardener if you paid them over a certain amount throughout the year.

Who Must File?

Form 1099-MISC needs to be filed for each person you have paid throughout the year:

- At least $10 in royalties or broker payments in lieu of dividends or tax-exempt interest
- At least $600 in:
  - Rents,
  - Services performed by someone who is not your employee (including parts and materials),
  - Prizes and awards,
  - Other income payments,
  - Medical and health care payments,
  - Crop insurance proceeds,
  - Cash payments or fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish.
  - Generally, the cash paid from a notional principal contract to an individual, partnership, or estate,
  - Payments to an attorney, *See Payments to Attorneys, later*, or
  - Any fishing boat proceeds.

Report on Form1099-MISC only when payments are made in the course of your trade or business. Personal payments are not reportable.

In addition, use Form 1099-MISC to report that you made direct sales of at least $5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment.

You must also file Form 1099-MISC for each person from whom you have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

Trade or Business Reporting Only

Report on Form1099-MISC only when payments are made in the course of your trade or business. Personal payments are not reportable.

- You are engaged in a trade or business if you operate for gain or profit. This also applies to Not-for-Profit organizations.
- Other organizations subject to these reporting requirements include trusts of qualified pension or profit-sharing plans of employers, certain organizations exempt from tax under section (501)c or (501)d, farmers' cooperatives that are exempt from tax under section 521 and widely held fixed investment trusts.
- Payments by federal, state, or local government agencies are also reportable.

Exemptions to the Rules

Some payments do not have to be reported on a Form 1099-MISC, although they may still be taxable. Payments for which a Form 1099-MISC is not required include:

- Payments to a corporation *see Reportable Payments to Corporations, later*,
- Payments for merchandise, telegrams, telephone, freight, storage and similar items.
- Payments of rent to real estate agents, however, the real estate agent must use a Form 1099-MISC to report the rent paid over to the property owner.

Reportable Payments to Corporations

The following payments made to corporations generally must be reported on Form 1099-MISC:

- Medical and health care payments,
- Fish purchases for cash,
- Attorney's fees,

- Gross proceeds paid to an attorney,
- Substitute payments in lieu of dividends or tax exempt interest, and
- Payments by a federal executive agency for services (vendors).

Payments to attorneys

The term "attorney" includes a law firm or other provider of legal services. Attorneys' fees of $600 or more paid in the course of your trade or business are reportable on box 7 of Form 1099-MISC.

Gross proceeds paid to attorneys.

Report in box 14 of Form 1099-MISC payments that:

- Are made to an attorney in the course of your trade or business in connection with legal services, for example, as in a settlement agreement,
- Total $600 or more, and
- Are not reportable in box 7.

Payments to corporations for legal services.

The exemption from reporting payments made to corporations does not apply to payments for legal services. Therefore, you must report attorneys' fees in box 7 or gross proceeds in box 14 as described earlier to corporations that provide legal services.

Penalties

Penalties for failure to file correct information returns and/or to furnish correct payee statements have increased and are now subject to inflationary adjustments. Information returns and payee statements include, for example, Forms 1098, 1099, W-2G and W-2.

The penalty rates and maximums for failure to file correct information returns and/or to furnish correct payee statements are as follows.

Small Businesses with Gross Receipts of $5 Million or Less	
Time Returns Filed/Furnished	*Returns Due 1/1/17 through 12/31/17*
Not more than 30 days late (Due date is January 31)	$50 per return / $186,000* Maximum
31 days late but by August 1	$100 per return / $532,000* Maximum
After August 1 or not at all	$260 per return / $1,064,000* Maximum
Intentional disregard	$530* per return / no limitation
**Adjusted for Inflation*	

Large Businesses with Gross Receipts of More Than $5 Million and Governmental Entities	
Time Returns Filed/Furnished	*Returns Due 1/1/17 through 12/31/17*
Not more than 30 days late (Due Date is January 31	$50 per return / $532,000* Maximum
31 days late but by August 1	$100 per return / $1,596,500* Maximum
After August 1 or not at all	$260 per return / $3,193,000* Maximum
Intentional disregard	$530* per return / no limitation
**Adjusted for Inflation*	

The amount of the penalty is based on when you file the correct information return or furnish the correct payee statement. A penalty for failure to file a correct information return is separate from the penalty for failure to furnish the correct payee statement. For example, if you fail to file a correct Form 1099-MISC with the IRS and don't provide a correct Form 1099-MISC statement to the payee, you may be subject to two separate penalties. Bear in mind that these penalties are applied to ***each*** Form 1099-MISC that you need to send out and file. If you did business with 50 different independent contractors this year and do not send out and file the appropriate Form 1099-MISCs your penalties will accrue rapidly.

You should also be aware that while your penalties for not filing the Form 1099-MISCs are piling up, you are also in danger of accruing penalties for backup withholdings that you may be responsible for, You would also be liable for any interest and penalties that may have accrued on the unpaid backup withholding tax. Should you be audited, there is also a chance that the deduction you are claiming can be denied entirely. Should this happen you would also be liable for the recipient's tax liabilities.

IN CONCLUSION

Make certain you get your Form 1099-MISCs sent out on time. Be certain you have received tax identification information from each and every person or business that you have dealt with throughout the year. It may seem like endless time consuming paperwork, but it will save you money in the end. Keeping accurate records is sound business sense, You ultimately want to keep as much as you can from what you have worked so hard to earn. Being proactive and on the spot, can save you a lot of hassle should you get audited in the future.

References

2017 Instructions for Form 1099-MISC. (2017). Retrieved from Internal Revenue Service, Department of the Treaasury: https://www.irs.gov/pub/irs-pdf/i1099msc.pdf

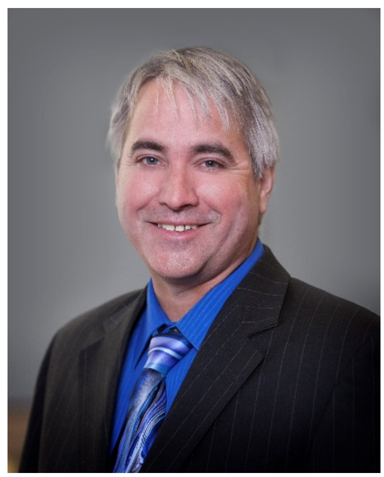
About Next Level Accounting & Tax

As a company built upon a family ethos and founded on over 20 years' experience; we ensure that the considerable amount of time we spend with our clients is as engaging as possible. We are proud of our values and our culture which are at the heart of our company and set the standard for how we behave.

The value of relationships is important to us. Every client relationship is a new addition to our family, and we truly believe that our success is a result of your success. We are committed to providing close, personal attention to our clients. The personal assistance you receive comes from years of advanced training, technical experience, and financial acumen. Our continual investment of time and resources in professional continuing education, state-of-the-art computer technology, and extensive business relationships is indicative of our commitment to excellence.

Keith Huggett, CPA

Founder,



Keith is the Founder of Next Level Accounting & Tax. He's worked on both sides of the sales tax equation, having worked in the tax preparation and planning field for over 20 years. His strategies for tax savings reflect his expert knowledge gained consulting with Fortune 500 as well as small entrepreneurial companies. Keith loves helping clients overcome obstacles in all tax arenas. He enjoys crafting tax strategies that allow clients to legally minimize their tax bills, and he finds that helping clients improve their operations to be very rewarding. Keith is a CPA and received his bachelor's degree from Cal State Dominquez Hills in Carson, CA. His free time is spent with his family on their six acre ranchette, tending to the never ending list of repairs, attending church, and volunteering his services wherever they may be needed.

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