



## Five Steps to Understanding 1099 MISC

The IRS requires that businesses send 1099 forms by February 1, 2016. Simply, a 1099-MISC needs to go to any individual or business that was paid a total of \$600 or more for services provided by your company during a calendar year. Only businesses are required to submit 1099s. Sounds straight forward, right? Not for the IRS. Here are some basics guidelines:

1) **Why does the IRS require 1099s?** The IRS wants to make sure that businesses are reporting all applicable income. They will compare 1099s to tax returns.

2) **What is considered to be a service?** Essentially anything that is not “goods or products” is a service. When preparing a 1099, only include services paid and not reimbursed expenses. Although **not a complete list**, this can include:

- ✓ Office and Storage Rent (Exception: office space rent paid directly to real estate agents)
- ✓ Legal/Attorney Fees (All attorneys paid \$600 or more regardless of tax status)
- ✓ Machine/Equipment Rental
- ✓ Accountants/Bookkeepers (Note: CFO Colorado is an S Corp, so we don't need a 1099)
- ✓ Web Site Developers
- ✓ Advertising/Marketing
- ✓ Janitorial/Office Cleaning
- ✓ Business, IT, and Educational Consultants
- ✓ Memberships and Dues
- ✓ Delivery / Courier Companies
- ✓ Subcontractors and Independent Contractors/Salespeople (People who provided services and is not your employee)
- ✓ Auto / Equipment Repair
- ✓ Landscaping/Lawn Services
- ✓ Referral Fees to another Company
- ✓ Drug Screening
- ✓ Interest (more than \$10 to a non corporation)

3) **Who gets a 1099?** Basically anyone who is not an employee and is paid a total of \$600 or more for services, based on tax status. This includes sole proprietors, general partnerships, limited partnerships and limited liability companies, BUT excludes C and S corporations. Of course, there are exceptions: non profits and governmental agencies, such as Pinnacol Assurance, do not require 1099s. Business owner distributions/draws are not reported on 1099s. All attorneys paid more than a total of \$600 are required a 1099 regardless of tax status.



ACCOUNTING & TAX SERVICES

4) **How can you tell a company's business status?** A common misconception is that a 1099 is required only if payment is made to a person, or is not required if the company's name includes an LLC. In truth, the only way to know a company's business tax status is to refer to the vendor's Form W9. Note that tax status may be different than legal status. It is good business practice to request a W9 before paying a service vendor – whether or not you expect to pay them a total of \$600 or more. A vendor is required to provide a W9 upon request – whether or not they require a 1099. For ongoing vendors, it is prudent to ask for a W9 every year, in case of an address or status change. A blank W9 form is included in this email. To reduce errors, do a quick review of the W9 upon receipt to make sure it's filled out completely:

- ✓ Is the correct address provided?
- ✓ Is Box 3 completed? If the LLC box is marked, make sure the tax classification is designated with a "S", "C" or "P".
- ✓ If a person's name is on the form, then a **social security number** must be provided. If a company name is provided, then an **FEIN or TIN** must be provided. A person cannot have an FEIN and a company cannot have a social security number.
- ✓ Make sure all payments are made to the vendor name as presented on the W9.

5) **When are 1099s and 1096 due?** The 1099s must be mailed to vendors by **February 1, 2016**.

The 1096 form is due to the IRS by **February 29, 2016**. A 1096 form is simply a summary of the 1099s sent. If you file electronically, the 1096 is then due March 31, 2016. There may be penalties for filing late and for filing incorrectly.

#### Anything else I should know?

- ✓ If you can't determine if a vendor needs a 1099 or not, it's better to send one. You will not be penalized for sending one that is not needed; but penalties will be assessed if you fail to send one when required. Penalties for non-compliance can be significant.
- ✓ If you paid more than \$10 interest on a loan to a non corporation, this needs to be reported on a 1099 INT form.
- ✓ You may not use the printed Forms 1096 or 1099 from the IRS web site. You must use original preprinted forms. You can order these at <https://www.irs.gov/Forms-&-Pubs/Order-Products> or call 1-800-TAX-FORM (1-800-829-3676). But do so soon! You can also purchase these forms at office supply stores, but they are usually sold in packs of 25.
- ✓ QuickBooks provides a simple way to track vendors who need 1099s. If properly input, a quick report can be generated at the end of the year for easy tracking. 1099s and the 1096 can be printed directly from QuickBooks. However, the preprinted forms are still required.
- ✓ Which box on the 1099 to use? Box 1 is used for any rent you have paid. Pretty much everything else goes into Box 7. If your company paid a lawsuit settlement, use Box 14.
- ✓ This is a very simplified overview of 1099s. If you have any special situations that you are not sure about, feel free to call us.



## **CFO Colorado offers 1099 Processing Services for Reasonable Fees**

If you choose to have CFO Colorado process your 1099s, please fill out the required spreadsheet (attached in this email) and email or fax it to us by **January 20, 2016**. A \$25 rush fee will be assessed for requests received after this deadline, as well as any additional postage fees.

Please note that the 1099s will be mailed to you for review and distribution, **not directly to the 1099 vendors**. Make sure to allow appropriate time for this. Client copies of the 1099s and the 1096 for your records will be sent to you in February.

Our fees for preparing 1099s and submitting the required Form 1096 to the IRS are as follows:

Number of Forms	1	\$40
	2-5	\$75
	6-10	\$100
	11-15	\$125
	16-20	\$150
	21-25	\$175
	26-50	\$200
	50-100	\$250
	101-125	\$300
	125-150	\$325
	151+	Please call

Please contact our office with any questions. Thank you for your business!