



## **1099-MISC VS. 1099-NEC: Which one do you need?**

Starting with tax year 2020, the IRS has added a new form, the 1099-NEC which will replace box 7 on the 1099-MISC. This form is used to report nonemployee compensation (contract labor). Because the 1099-MISC will still be used for other services, we have created a breakdown so that you know which form you need to be filing. Below are some basics to know the difference:

### **Why did the IRS make two separate forms?**

The issue with using one the 1099-MISC form was that the due dates for reporting nonemployee compensation in box 7 was January 31, and all the other information on the form was due Feb. 28 for mail in or March 31 for electronic filing. This resulted in a lot of late filing notices which resulted in the IRS creating the 1099-NEC form which is strictly for nonemployee compensation.

### **What goes on the 1099-NEC Form?**

File Form 1099-NEC is used to report nonemployee compensation, that includes but is not limited to the following:

- Payments made to someone who is not your employee (Contract laborer or independent contractor)
- Payments made for services done to or for your business (including government agencies and nonprofit organization)
- Payments made to an individual, partnership, estate, or in some case, a corporation
- Payments made to the payee of at least \$600 during the year
- Attorney fees

### **What goes on the 1099-MISC Form?**

File Form 1099-MISC is used for each person you paid for a service (anything that is not considered good or products). Below are some examples:

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest
- At least \$600 in:
  - Rents
  - Prizes and awards
  - Other income payments
  - Medical and Health care payments
  - Crop insurance proceeds
  - Cash payments for fish, and any fishing boat proceeds
  - Generally, the cash paid from a notional principal contract to an individual, partnership, or estate
  - Payments to an attorney

In addition, use Form 1099-MISC to report any 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 a Form 1099-MISC for each person you have withheld any federal income tax under the backup withholding rules regardless of the amount.

### **When do these forms need to be filed?**

There is a difference in when these forms need to be filed and it is very important that you know the difference as to avoid late fees.

- The **1099-NEC** Form will need to be filed by Jan. 31, since that date in 2021 does fall on a Sunday, the last day for filing will be **February 1, 2021**.
- The **1099-MISC** Form will need to be filed by **March 1, 2021 if you file on paper**, or **March 31, 2021 if you file electronically**.