

2011 Form 1099 Reporting Requirements

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One of the areas we see the most confusion concerning reporting compliance among businesses is that of reporting payments made to vendors for services performed for the company. This is also an area where business have the most difficulty in administering.

In summary, you are required to prepare a Form 1099 for any:

- ✓ Unincorporated business or individual,
- ✓ To which you have paid \$600 or more,
- ✓ For services (cleaning, repair, landscaping, marketing, etc) OR
- ✓ For services combined with providing materials (such as a repairman or building contractor), OR
- ✓ For rent

In general, you do not need to issue a 1099 to a corporation, unless payments were made to a

- ✓ Law firm
- ✓ Lawyer
- ✓ Health care provider

Examples of Situations where 1099 Reporting Is Required

- You paid rent to an individual or partnership for your business
- Your business paid over \$600 to an individual, sole proprietor, or partnership for services, including parts and materials, (such as cleaning, repairing, remodeling, website design, etc.)
- You paid over \$600 to an attorney or law firm for legal services (even if the law firm is incorporated).
- You paid over \$600 to an individual, sole proprietor, or partnership for services such as accounting, bookkeeping, or consulting.
- Your business paid over \$600 to any individual or business, even if incorporated, for medical or health services.

New for 2011! Because of new 1099-K reporting rules for payment made by credit card companies and banks, you should report on Form 1099-MISC only payments you made via cash or check. Payments made by credit or debit card should be excluded from your Form 1099-MISC because these payments will be reported on Form 1099-K by the credit card companies and banks.

So how do you know if the business is incorporated or not? This is one of the main purposes of the IRS issued document called a W-9 "Request for Taxpayer Number and Identification." You should obtain a W-9 from all of your vendors to determine whether they are operating as a sole proprietor, corporation, or partnership, and to obtain their federal Taxpayer Identification Number (TIN).

TIP! Obtain a W-9 from every vendor **before paying your vendor**. It is much easier to obtain this information up front. It also avoids the last minute scramble when gathering your information for the annual 1099 reporting exercise.

With this information you can determine whether this person should receive a 1099 at the end of the year. It also protects you in the event of an IRS audit. By performing your due diligence with a W-9, you protect yourself if you don't issue 1099 to a vendor that is not really incorporated. When you obtain a W-9 that states a certain vendor is incorporated, and it turns out the vendor is not (and you should have issued a 1099), you can turn to the W-9 as proof of your due diligence and avoid IRS penalties.

Penalties for failing to file Forms 1099 have risen to \$100 per payee statement not filed. This can quickly balloon to a large amount for a business with a large vendor base. Properly issuing 1099s to vendors meeting the reporting requirement also is helpful should your business get audited by the IRS. Failure to issue Forms 1099 can result in the IRS disallowing the expense claimed on your tax return.

The reporting requirements can be complex. Please contact our office you need clarification on these issues.