

January 2020

## 1099 COMPLIANCE

If in the normal course of your business you make payments of \$600 or more for services performed by a non-corporate entity, the payments must be reported to the IRS using Form 1099-NEC, Nonemployee Compensation or Form 1099-MISC, Miscellaneous Income. A non-corporate entity is an individual sole proprietor, partnership or limited liability company (LLC). Form 1099-NEC and MISC are not issued for the purchase of products.

What must be reported? Some common examples of reportable payments follow:

Payments to attorneys, independent contractors, accounting services, consultants, prizes and awards, appraisal services, rent, directors' fees, lab fees, repair services (*e.g.*, auto, building maintenance, computer).

**ASK FOR THE TIN BEFORE PAYING!** If you make these types of payments for your business, you must obtain a taxpayer identification number (TIN) from each payee, such as a social security number (for an individual or single-member LLC), or an employer identification number (for an organization), as well as the full name as reported to the IRS and address. The payee may provide the TIN orally, in writing, or on a Form W-9, "Request for Taxpayer Identification Number and Certification." The Form W-9 is available on our website. If you do not receive a TIN from the payee or you receive a notice from the IRS of an incorrect TIN, you must withhold 28% federal backup withholding on each reportable payment. If you do not have the TIN for the vendor and you do not collect the backup withholding, you technically still owe the backup withholding and the IRS could come to collect it.

**PAYMENTS TO CORPORATIONS.** You do not need to report payments made to corporations for services, except for payments to corporations that provide LEGAL or MEDICAL services. However, do not assume that all businesses are corporations. You may treat a payee as a corporation if the payee's name contains an expression of corporate status, such as "Corporation", "Corp.", "Incorporated" or "Inc." but not "Company" or "LLC". An LLC can be either a corporate or non-corporate entity for tax purposes. You may rely on a Form W-9 that states the payee is a corporate entity or an exempt payee to determine whether information reporting is required.

**PENALTIES MAY APPLY.** Businesses required to file and provide information returns may be subject to penalties for failure to file timely and correct information returns, and/or for failure to provide timely and correct payee statements. Higher penalties apply to failures due to an intentional disregard of the reporting rules. A penalty also applies to anyone refusing to furnish their correct identification number.

**WHEN AND HOW TO FILE.** Information returns must be provided to payees and to the IRS by January 31 following the reportable year. If you file 250 or more information returns, you must file electronically.