

## **Lesson 2, Forms 1099 and 1096**

### **Slide 1**

Welcome to this presentation.

I've a few announcements before we get started.

The information contained in this presentation is current as of the day it was presented and shouldn't be considered official guidance.

Any stories, names, characters, and incidents portrayed in this production are fictitious. No identification with actual persons (living or deceased), places, buildings, and products is intended or should be inferred.

This program will be maintained in accordance with federal recordkeeping laws.

Now let's get started.

This is the second of 12 lessons on payroll taxes.

### **Slide 2**

In this lesson, we'll concentrate on Forms 1099 and 1096.

### **Slide 3**

In Lesson 1, we learned how to classify employee vs. nonemployee workers. We'll now discuss responsibilities regarding nonemployees.

Let's learn who, what, when, and where regarding Forms 1099.

- Who receives a Form 1099?
- What's reported on Form 1099?
- When are 1099s due?
- Where are they mailed and how to do you complete them?

We'll also discuss backup withholding and common errors to avoid.

## **Slide 4**

What's Form 1099-MISC?

It's an IRS form that reports annual payments of \$600 or more made to nonemployee workers, businesses, and other payees that meet certain requirements.

## **Slide 5**

Who receives Form 1099?

Answer: Nonemployee workers, such as subcontractors, vendors, businesses, independent contractors, and other payees who provided a service or rents and whose payments for the year totaled \$600 or more.

Services entail a person's time and labor and not tangible things like goods, products, or merchandise.

## **Slide 6**

Besides services and rents, there are a few more instances requiring the issuance of a 1099. It's also used to report payments for prizes and awards of \$600 or more per year that aren't for services performed.

For example, drawings, door prizes and prizes paid to the winners of sporting & other events, such as photography or art contests, snow machine or dog sled races, and powwows.

A noncash prize that has a fair market value of \$600 or more must be reported on Form 1099 MISC.

For example, a snow mobile with a fair market value of \$5,000 awarded as a prize must be reported on Form 1099 MISC.

If the prize or drawing involved a wager (for example, the winner had to buy a ticket to be eligible to win the raffle), that payment would be reportable on a different form — Form W-2G.

A W-2G, Certain Gambling Winnings, reports gambling winnings and any federal income tax withheld.

## **Slide 7**

There are exceptions for who receives a 1099. Payments made to a corporation don't require a 1099. However, the corporation rule has two exceptions.

First, payments made to a medical corporation for medical or health services require a Form 1099-MISC. Medical and health services include physicals, dental or vision exams, physical therapy, lab fees, drug testing, etc.

You're not required to report payments for goods, products or merchandise so payments to pharmacies for prescription drugs don't require Form 1099.

Second, payments to legal service corporations for attorney's fees and gross proceeds paid for a legal settlement or court order require a 1099-MISC.

## **Slide 8**

Two more Form 1099 exceptions are governmental and tax-exempt entities.

You're not required to issue a 1099 for payments to governmental entities including federal, state, city, borough, county, and tribal governments.

Also, payments to tax-exempt organizations don't require a 1099.

## **Slide 9**

Other examples of services requiring a Form 1099 MISC include accountants, janitorial services, entertainers and many others. The common theme for each is someone's time is spent performing a service.

## **Slide 10**

Let's take a closer look at repairs.

Payments for repair services are reportable on Form 1099 MISC. If the payment includes separate charges for labor and incidental parts or materials, the total payment made for the labor and the parts is reportable if \$600 or more.

For example, if a repair shop charges \$700 for parts and \$300 for labor, a 1099-MISC should be issued for \$1,000, because furnishing the parts was incidental to the obligation to repair the auto.

### **Slide 11**

Rents and leases of \$600 or more per year for office space, office equipment, heavy equipment, vehicles, etc., are reportable on Form 1099-MISC. However, rents paid to corporations or real estate agents aren't reported.

### **Slide 12**

What shouldn't be reported on a Form 1099?

Any type of compensation paid to employees is reported on a W-2, not a 1099-MISC. This includes commissions, bonuses, cash payments, prizes, awards, and market value of trips or other prizes.

### **Slide 13**

Any type of compensation paid to tribal council members is reported on a W-2, not on a 1099-MISC. This includes meeting stipends or any other type of compensation paid for their work as tribal council members.

Per Revenue Ruling 59-354, they're considered employees.

Don't use Form 1099-MISC to report scholarships. Scholarship or fellowship grants are taxable if recipients are paid for teaching, research, or other services as a condition for receiving the grant. These are wages and must be reported on Form W-2.

Other scholarships to a tribal member don't have to be reported to the IRS on any form.

### **Slide 14**

How do you determine if the businesses or individuals you paid are incorporated, tax exempt or a government entity?

Form W-9, Request for Taxpayer Identification Number, provides all the information you'll need. Obtain this form prior to the first payment you make to anybody.

## **Slide 15**

Form W-9 provides the taxpayer's name, address and social security number (SSN) or employer identification number (EIN). It also certifies the taxpayer identification number's correct.

In addition, the payee certifies he isn't subject to backup withholding or is tax exempt.

## **Slide 16**

Line 3 of Form W-9 requires the payee declare his federal tax classification. This shows if the business or individual should be considered governmental, tax exempt or incorporated.

The type of entity declared on the W-9 allows you to determine if a 1099-MISC needs to be filled out.

If Individual/sole proprietor is checked issue a 1099.

If C Corporation or S Corporation is checked, don't issue a 1099 unless it was for medical or legal services.

If partnership or trust/estate is declared, issue a 1099.

But what if limited liability company is checked?

## **Slide 17**

Line 3 of Form W-9 includes a box for LLC. An LLC may or may not be a corporation. It may be taxed as a sole proprietorship, a partnership, or a corporation.

Taxation depends on state law.

An LLC is asked to designate its appropriate tax classification on Form W-9. If the LLC hasn't marked a C or S after the LLC designation to indicate it's a corporation, and the payments to the LLC fit all the other criteria of who should receive a Form 1099, issue one.

## **Slide 18**

Most importantly, the W-9 helps you avoid backup withholding.

Backup withholding is income tax you withhold from payments made to potential Form 1099 recipients when they refuse, or neglect, to give their SSN or EIN upon request. You withhold at a rate of 28% of the gross payment.

Backup withholding is also required if you receive a notification from the IRS that applies to a particular payee.

### **Slide 19**

For example, you owe an air conditioner repair service \$1,000, but they neglect or refuse to give you their tax identification number (TIN). You withhold 28% of \$1,000 which is \$280 as backup withholding and give them a net payment of \$720.

### **Slide 20**

What happens if you don't backup withhold?

You may be liable for the amount that should've been withheld.

The IRS can assess and collect 28% tax on all payments for entities with no TIN on file.

### **Slide 21**

Once you've withheld the 28%, how do you report backup withholding so the payee gets credit?

You report the backup withholding in Box 4, federal income tax withheld.

In our example, \$1,000 was entered in Box 7, since this is what the vendor charged for his services. Since he refused to provide his SSN, we did backup withholding of \$280 and entered that in Box 4.

If you had to do backup withholding, issue the Form 1099-MISC even if the amount paid was below the \$600 threshold amount for filing. The vendor will need this documentation so he can claim the withholding on his income tax return.

## **Slide 22**

Once you've withheld the 28%, how do you report and pay the amount withheld?

Form 945, Annual Return of Withheld Federal Income Tax, must be filed by Jan. 31 of the year following the year the backup withholding was done.

Backup withholding is reported on Line 2. You report any tax deposits you make on Line 4.

The amount withheld should be remitted to the U.S. Treasury via a deposit. However, if the total amount for the year is less than \$2,500, you may mail a check payable to the U.S. Treasury with Form 945.

## **Slide 23**

Where on Form 1099 do you report the various types of payments you make?

## **Slide 24**

Payments for services performed by nonemployee workers or businesses are reported in Box 7 – nonemployee compensation.

Examples for nonemployee compensation include professional service fees – like architects, accountants, garbage collection service and cleaning services.

You also include payments for services in the form of prizes or awards you make to vendors who aren't your employees.

## **Slide 25**

Fees paid to an attorney could meet different categories. Please note that Box 14 has attorney in the title. However, use Box 7 – nonemployee compensation to report regular fees paid to an attorney or a legal service corporation.

## **Slide 26**

Box 14, gross proceeds paid to an attorney, reports payments made for settlement agreements where attorneys' fees can't be separated or identified from total payment.

## **Slide 27**

Use Box 1 to report rents and leases of \$600 or more per year for office space, office equipment, heavy equipment, vehicles, etc. Remember, rents paid to corporations or real estate agents don't have to be reported.

## **Slide 28**

Box 3 of the Form 1099-MISC reports other income, such as prizes and awards that aren't for services performed. Also included in Box 3 are amounts paid to winners of drawings, races, sporting and other events that don't involve a wager.

## **Slide 29**

Medical and health care payments are reported in Box 6. Enter payments of \$600 or more to each physician, corporation, or other supplier or provider of medical or health care services.

Payments to persons providing health care services often include charges for injections, drugs, dentures, and similar items. In these cases, the entire payment's subject to information reporting.

You're not required to report payments to pharmacies for prescription drugs.

## **Slide 30**

Form 1096 is a transmittal form that must accompany all paper Forms 1099 you submit to the IRS. It summarizes the information on the Forms 1099 that you're sending.

## **Slide 31**

Here's Form 1096, the annual summary and transmittal of U.S. information returns.



Thirty different types of information returns, including 1099-MISC, can be submitted using this form. Remember, a separate Form 1096 is sent with each type of information return you file by paper.

Line 6 asks for an “X” in only one box to indicate the type of form being filed.

Check the box on Line 7 if any Forms 1099-MISC with nonemployee compensation in Box 7 is submitted.

### **Slide 32**

Once you’ve completed the Form 1099-MISC, provide Copy B to the recipients by Jan. 31.

If you’re reporting payments in Box 7, send Copy A to the IRS by Jan. 31, regardless of whether you file on paper or electronically. Include the transmittal Form 1096 if paper Forms 1099-MISC are filed.

You’re required to file electronically if you have 250 or more information returns to submit. The electronic filing requirement applies separately to each type of information return submitted.

For instance, you have 256 Forms W-2G and 195 Forms 1099-MISC to file. You must file the W-2G’s electronically because you’ve more than 250.

Regarding Forms 1099-MISC, you can choose to file via paper because you have fewer than 250. However, you can always choose electronic filing, even if you’re not required to file electronically.

We’ve already mentioned that a Form 1096 is required when submitting the paper 1099s. You must submit a separate Form 1096 with each type of 1099 or other information return you file by paper

### **Slide 33**

Let’s discuss common mistakes made on Forms 1099.

- Only use the current year’s Forms 1099. Don’t use prior year forms unless you’re reporting prior year information.
- Don’t use subsequent year forms for the current year. Because forms are scanned, use the current year form to report current year information.

- Don't use photocopies of the forms – they're unacceptable.
- Don't handwrite the Forms 1099. Type them using black ink in 12-point Courier font. Copy A's read by machine and must be typed.
- The machine can't read entries completed by hand, or using script, italic, or other fonts, or in colors other than black.
- If you must file handwritten forms, make sure they're legible and accurate to avoid processing errors. Use block print, not script characters.
- If you have a small number of forms, consider contacting an IRS business partner who may be able to prepare them for little or no cost.
- Make sure the numbers and letters entered in the boxes are centered. Don't run entries into the sides of boxes. The computer won't accurately read those numbers or letters. This can be a particular problem when 1099s are produced using a computer and a printer.

### **Slide 34**

Payer's name and EIN should be the same on Form 1096 as on individual Forms 1099. Be consistent with the name and number filed on other IRS tax returns.

### **Slide 35**

If the recipient or payee's an individual or sole proprietor, the individual's name must go on the first name line, not the business name.

This is true whether the TIN's an EIN or SSN. The business name can go on the second name line.

Don't use number signs in the address – for example, use RT 2 not RT #2.

### **Slide 36**

Don't enter two names if the payment's for more than one person, like husband and wife. Only put one person's name on the first name line. It should be the name of the person whose TIN appears in the TIN box. The second person's name can go on the second name line.

### **Slide 37**

Don't enter (zero) or "none" in money amount boxes when no entry is required. Leave those boxes blank unless the instructions require you enter zero. For example, in some cases, you must enter zero to make corrections.

Don't use dollar signs, ampersands, asterisks, commas, or other characters in the "money" boxes. Make all dollar entries without the dollar sign, but include the decimal point. For instance, when reporting \$10,566.98, enter it without the dollar sign and comma.

Don't omit the decimal point between the dollars and cents. When reporting \$1,000; enter 1000.00.

### **Slide 38**

Use one Form 1096 for each type of Form 1099. All Forms 1099 MISC go with one 1096; all Forms 1099 INT would be sent with a different Form 1096.

Check the box on the Form 1096 for the corresponding type of Form 1099 being filed.

In our example, we've checked 1099-MISC.

If, after filing Forms 1099, you need to submit additional forms, file these forms with a new Form 1096. Don't include copies or information from previously filed returns.

### **Slide 39**

Only send Copy A to the IRS.

Don't cut or separate the two forms per page when sending in Copy A. Forms 1099 must be submitted on the 8 x 11-inch sheet. If at least one form on the page is completed, you must submit the entire page.

Don't staple, tear, or tape any of these forms. It'll interfere with the IRS' ability to scan the documents.

Don't fold the pages. Send in a large, flat envelope.

## **Slide 40**

Corrected Forms 1099-MISC should be prepared if the original information return showed an incorrect money amount, an incorrect TIN, or a return was filed when one shouldn't have been.

See specific instructions on how to correct Forms 1099.

## **Slide 41**

Include your phone number on the Forms 1099 that are furnished to the recipient. The phone number should provide direct access to an individual who can answer questions about the Form 1099.

## **Slide 42**

This concludes Lesson 2. You've learned about Forms 1099-MISC and Form 1096, when backup withholding is required, due dates of the returns, and common errors to avoid.

Thank you.