

## **New IRS Scrutiny of 1099 Filing Requirements**

During the 2011 tax filing season, we became aware of two new questions on business tax returns (including Forms 1120, 1120S, 1065, and 1040 Schedules C, E & F):

1. Did you make any payments in 2011 that would require you to file Form(s) 1099?
2. If “Yes,” did you or will you file all required Forms 1099?

### **Background – what is Form 1099?**

Generally, a business issues Form 1099 to report certain payments to the IRS and inform recipients of the amounts reported. For example, Form 1099-INT reports interest income and Form 1099-DIV reports dividend income. The most common type of 1099 filed by small businesses is Form 1099-MISC, which reports amounts such as rents and nonemployee compensation and other income.

The rules and thresholds for issuing 1099s vary, but for both rents and nonemployee compensation, a business must issue Form 1099-MISC to report \$600 or more paid during the tax year to an individual or un-incorporated entity for services. Reportable payments for services include professional fees paid to an attorney or an accountant, and payments to independent contractors for contract services, information technology consulting, web design and repairs & maintenance (just to name a few). Rent paid to a landlord is another reportable payment that is sometimes overlooked.

### **Implications of the new questions on business tax returns**

Tax returns are signed under penalties of perjury, so it is important to accurately answer the two new questions regarding the filing of 1099s. We expect nearly all of our business clients to meet the requirement for issuing 1099s and answer “yes” to the first question since they have paid us accounting fees (as an LLC, Bell, Rugh & Logan is eligible for a 1099). We do not know the consequences of answering “yes” to the first question and “no” to the second question, but one possible outcome is an IRS correspondence audit. For this reason, we urge all of our clients to timely file all required Forms 1099.

### **Penalties for filing late and failing to file**

The IRS recently increased penalties for failure to file information returns, failure to furnish correct payee statements, and for intentional disregard of the law. The current penalties for failure to file information returns such as 1099s are as follows:

- \$30 per information return if you correctly file within 30 days (by March 30 if the due date is February 28).
- \$60 per information return if you correctly file more than 30 days after the due date but by August 1.

## **New IRS Scrutiny of 1099 Filing Requirements – (continued)**

### **Penalties for filing late and failing to file (continued)**

- \$100 per information return if you file after August 1 or you do not file required information returns.
- If any failure to file a correct information return is due to intentional disregard of the filing or correct information requirements, the penalty is at least \$250 per information return.

In addition, the penalty for failure to furnish correct payee statements increased to \$100 per return. The penalty is reduced to \$30 per return for failures corrected within 30 days after the due date and reduced to \$60 per return for failures corrected on or before August 1.

### **Due Dates for Filing Forms 1099**

January 31<sup>st</sup> of each calendar year forms are due to Service Providers

February 28<sup>th</sup> of each calendar year forms are due to the Internal Revenue Service

### **Filing your 1099s**

We are happy to prepare Form(s) 1099 for our clients when requested to do so. Typically, clients provide us with either an electronic copy of their accounting data or the amounts required to be reported on Forms 1099, as well as the name, address, and tax identification number for each recipient.

If we perform bookkeeping services for your business in connection with the filing of your annual tax returns, we will need to begin entering your data in the month of November each year to ensure completion by the due dates above.

If you decide to prepare your own 1099s, you can buy blank forms at most office supply stores. If you use QuickBooks, we can walk you through the steps for printing 1099s directly from the software.

Please see the “Links: section of our website for Form W-9 which is used to gather all the data needed to file your 1099’s at year end. The laws for issuing Form 1099 are complex, so please consult with your tax advisor.