

Form 1099

Breaking down the
who, what, when,
and how



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What are 1099s?

1099 forms are information filings required by the IRS. They are NOT tax returns. Rather, they report that you gave or paid money to someone other than an employee. The payer completes and files the 1099 forms and sends copies to the recipient and to the IRS.

There are multiple types of 1099 forms. Each form has its own unique rules and requirements, so it's important to understand exactly which ones apply to your business and which you'll be required to file.

There are more than 20 different kinds of 1099s (find a list and the related instructions from the IRS [here](#)). The two most common forms we see are:



1099-NEC

- Introduced by the IRS in 2020
- Used to report payments for services provided by persons who are not employees, like an independent contractor

1099-MISC

- Used to report payments that are not for services such as rent, royalties, and prizes.

Do I need to file 1099s?

Almost every business needs to file 1099s. They are required if you make qualifying payments related to carrying out your trade or business. Non-profit organizations are also required to file 1099s, as they are considered to be engaged in business. However, you do not need to report payments if they were personal in nature.



You might already be familiar with the requirement to file a 1099 to report payments made of more than \$600 in the calendar year to a contractor, or non-employee. But what if you didn't pay any contractors? Does this mean you're in the clear and don't need to worry about filing a 1099?

Not necessarily

Some other types of payments that need to be reported on a 1099 include:

- | Rent totaling \$600 or more **This one is very commonly missed!
- | Royalties totaling \$10 or more
- | Prizes and awards
- | Medical and health care services

The Exceptions

When you don't need
to file a 1099

- **Payments** to a subcontractor or vendor **totaling less than \$600** in a calendar year do not need to be reported on a 1099
- Royalties totaling less than \$10 in a calendar year do not need to be reported on a 1099
- **Payments made with a credit card** do not need to be reported on a 1099. This includes debit cards, store-valued cards, and third-party networks like PayPal.
 - In these instances, the payment settlement entity (i.e. the credit card company) is responsible for issuing a 1099-K form to the vendor or subcontractor who has received these payments.
- **Payments made to corporations** do not need to be reported on a 1099 **except in certain instances**, like when payment has been made to an attorney or law firm. ****The exception for payments made to an attorney or law firm is commonly missed!**

There are other exceptions not listed here. You can see a full list by the IRS of exactly what type of payments are required to be reported on a 1099 [here](#).

What happens if I file incorrectly?

When preparing 1099s for new clients we often discover past 1099 filings that were missed. The most common response when we review these with our clients is, "We've never filed a 1099 for that before!"

Just because you've been doing something one way for a long time doesn't necessarily mean you've been doing it correctly.

Failure to file necessary 1099s can have some serious and costly consequences.

For instance, you may be required to pay workers' comp on payments made to subcontractors that you did not file a 1099 for. Late 1099 filing can result in penalties of \$30 to \$100 per form. You could also run into issues if you're audited by the IRS.

If you filed a 1099 with incorrect information, such as the wrong Taxpayer Identification (TIN), you'll be notified by the IRS. If you've been notified by the IRS that you have an incorrect TIN and you are unable to obtain the corrected information, you may be required to do backup withholding on any future payments to that payee.

Some business owners don't want to issue a 1099 to a family member or don't want to put a burden on their contractor or freelancer. But 1099s are not a burden: they are a necessary and legally required filing. Not filing a 1099 when you know you should can only result in future headaches and stress.



Preparing to file 1099s

1. Review the 1099 instructions

Don't waste hours filling out an outdated 1099 form or collecting the details for a non relevant payment type. The IRS commonly makes alterations in the instructions for filing 1099s, and it's important you stay updated on these changes.

For example, in 2020, they introduced the 1099-NEC form for independent contractor income.

Time spent researching today will be saved on improper paperwork tomorrow.

Don't wait.

Take action before the year is over. These three simple steps can save you the headache and hassle of last minute prep:

We recommend that when these are received they are scanned and uploaded as attachments to your accounting system.

2. Collect vendor information

Once you understand the rules, don't procrastinate gathering the needed information. Often, this is the piece that can take the most time and when delayed can lead to penalties - we start reviewing potential 1099s for our clients in October!

While you don't know what your final amounts will be, you can see which vendors have already surpassed the \$600 threshold. For those that have, check that you have their completed W-9s and request any missing information to avoid unnecessary stress come January.

Now that you know which payments will require a 1099, you can start requesting a completed [Form W-9](#) from your vendors. Best practice going forward is to request a completed Form W-9 before any payments are issued throughout the year.

3. Reconcile all your bank accounts through the end of the calendar year

The deadline to file most 1099s is January 31st. That means you only have one month to reconcile your accounts, finish preparing your 1099s, and have them filed before you start accruing late fees or penalties - penalties for incorrect or missing 1099-MISC could be as much as \$1,000.

This is why we recommend completing the first two steps as early as possible to save yourself a stressful – or expensive – new year.



Your accounting software can help

Most accounting solutions have tools built in to assist you with preparing 1099s. We work both with QuickBooks Online (QBO) and Xero, and both have features to help in preparing 1099s.

| Quick Books Online (QBO):

QBO has a **Prepare 1099s** button that can be accessed by navigating to the Workers or Payroll menu and then selecting Contractors. The button can also be found if you select Expenses>Vendors and then toggle the Pay bills online button to Prepare 1099s. Navigating to this area will begin the steps of reviewing and filing 1099s through the Intuit 1099 E-File Services.

| Xero:

Xero offers a 1099 report that can be used to export vendor information and amounts to [Track1099](#), [Tax1099](#), or a CSV file. The 1099 report can be found by going to Accounting>Reports>Taxes and balances>1099 Report.



Get Help

When to hire a professional

We know how overwhelming this all sounds. With changing guidelines and exceptions, new form subtypes being introduced, and hefty penalties for incorrect filings, 1099s seem like a headache and a half.

Don't panic.

At Beyond, we file hundreds of 1099s every year for our clients. We have the skills and know-how to:

- Sift through hundreds or thousands of transactions to locate all 1099 eligible vendors and payments
- Utilize tools that improve the 1099 filing process to the fullest extent, ensuring the information submitted on your 1099s is complete and accurate
- Complete a comprehensive review of payroll solutions, like Gusto, to ensure correct 1099s are being issued
- Review all of your business payments that could be subject to 1099s - including rent, interests, and royalties - many of these are often overlooked



You deserve peace of mind.

You'll feel a weight lift off your shoulder the second you hand your 1099 filings over to a professional, knowing things are getting done and they're getting done right.

Get in touch with us
[here](#) to learn more
about our 1099
services and start your
Beyond journey today.

