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*My motto is: Speak softly and carry  
a big stick...or is it chew a big stick?  
(apologies to Teddy R.!)*



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## 1099 ALERT!!

It is important you review this special newsletter, even if it may not apply to you for this tax filing year. This new information was presented to us at tax update classes we've attended this month. As a taxpayer, it is your responsibility to be aware of IRS reporting regulations and potential penalties for not complying in a timely fashion. Even though some of the 1099 reporting rules passed in 2010 have been suspended, it appears the IRS may have found other ways to enforce them.

### Guidelines For Issuing 1099s

1099s report income paid by a company or individual (the "Payer") to another company or individual (the "Payee"). The money can be payments for services rendered, non-employee compensation, payments for products that will be resold (\$5,000 or more to one seller), rents, royalties, prizes, interest, dividend, proceeds from a home sale, etc. **Generally, when payments are \$600.00 or more during a calendar year, a 1099 is issued to the recipient of the income.** (The reporting threshold for interest, dividend and royalties is \$10.00.).

1099-MISC is the form issued by most businesses and individuals. The payments are those made in the "course of your business or trade". At this point in time, you are not required to issue a 1099-MISC to a legally incorporated business.

1099s are required to be given or mailed to the recipient by 31 January. A set of all 1099s issued by the payer along with a 1096 cover sheet is sent to the IRS by the end of February. When a business has 250 or more 1099s, they must be filed electronically with the IRS.

To correctly issue a 1099, **payers ask payees to complete a W-9 form** with the payee's name, address and tax identification number. **1099s must be issued under the correct name or the IRS can penalize the issuer.** Sole proprietors using their Social Security number, do business under their own name. Companies with an Employer Identification Number use a business name.

### New For The 2011 Filing Season

The IRS uses 1099s in matching to determine if a taxpayer is reporting all his/her income, so there is incentive to encourage more 1099 reporting. Beginning with the 2011 reporting year, penalties for late or non-filing of 1099s have increased dramatically. **The full penalties have been set at \$100 for each 1099 not filed that should have been, up to a maximum of \$1,500,000. The penalties are the same for incorrectly-filed 1099 statements.** 1099s are considered incorrect when payee name and tax ID number do not match or if the 1099 is filed without a tax ID number.

**The IRS is asking if 1099s have been filed on the following 2011 tax forms:** Schedule C (business), Schedule E (rentals), Schedule F (farms), Form 1065 (Partnerships), Form 1120S (S Corporations) and Form 1120 (Corporations).

**The two questions that must be answered are:**

- \* Did you/the business make any payments in 2011 that would require you/it to file Form(s) 1099?
- \* If "Yes", did you/the business file or will you/the business file all required Forms 1099?

**We will ask you these questions and we will also ask for copies of the 1099s you issued. The preparer penalties are also steep if our office provides false answers to the IRS.**

## Next Steps

You should spend time reviewing your records and decide if you have 1099-MISCs to issue. If you have paid one individual or business \$600 or more during 2011, you need to request a W-9 form be completed and returned to you. Even though you are not required to issue a 1099 to an incorporated business, we recommend getting a W-9 form that indicates the business is a corporation. It is part of the “proof” that you have done your due diligence.

**The W-9 form is available on the IRS website: [www.irs.gov](http://www.irs.gov) ~ go to Forms and Pubs.**

Our office can prepare your 1099-MISC/1096 reports or you can do your own. Most office supply stores sell the forms. **You cannot download the 1099 forms from the IRS website as the copy you must send in to them is red and formatted for the IRS computers to read.** You complete one

1099 form for each payee, including all the payee information as well as yours as payer.

In most cases, the payments you have made will go in Box 7, Non-Employee Compensation. If you are reporting rents you paid to your landlord, then you will put the dollar amount in Box 1, Rents. If you are reporting prizes or other awards (cash or non-cash), then you will put the dollar amount in Box 3, Other Income.

**Mail or give the 1099-MISC Copy B to the recipient by 31 January 2012 and mail Copy A (red) of both the 1099s and 1096 to the IRS by 28 February 2012.** Keep Copy C for your files and bring one of the other sets to us. If we prepare your 1099s and 1096, we will provide a full set of copies for your files. Be sure to keep any 1099s returned to you by the Postal Service. They are proof you did issue a required tax form.

**Critical 1099 Information Inside!**

## Final Thoughts...

We are here to help you! If you are not sure if this reporting requirement affects you, please contact Bill or Pam. If you are not sure which 1099 form to use **OR** if you want us to prepare your 2011 1099s, please contact us by early January.

Finally, it is our responsibility to answer the new questions on the tax forms honestly. If you have no intention of issuing 1099s but are required to, we must answer *Yes* to the first question and *No* to the second. The risk is the IRS may further investigate the matter or even audit your records.