

1099-NEC (Nonemployee Compensation) Filing

Requirments

Starting with tax year 2020, Form 1099-NEC replaces Form 1099-MISC to report nonemployee compensation.

The 1099-MISC form will still exist for reporting other types of payments such as rents, royalties, other income, awards/prizes, medical/healthcare payments, and many more.

When Is Form 1099-NEC Required?

If you pay \$600 or more for services rendered to your business, you must file Form 1099-NEC. Payments to a Corporation (unless it's an Attorney) do not require filing Form 1099-NEC, but payments to Partnerships and non-corporate LLCs do require filing form.

How To Proceed:

- A TIN solicitation is required. This solicitation should be made when the first transaction with the service provider occurs.
- You should request the service provider to furnish the TIN information on Form W-9 (Request for Taxpayer Identification Number and Certification). This Form asks for the payee's name, address, tax classification, and ID number (either EIN or Social Security number).
- Keep this Form on file.
- If you fail to secure a Form W-9 before making the first payment, the law requires you to withhold 24% backup withholding from the payment.

Due Date For Filing Form 1099-NEC:

You must furnish Copy B to the recipient and Copy A (along with Form 1096) to the IRS by Jan 31.

Penalties For Non-Compliance:

You can be penalized for filing late, not including all of the required information, not including the correct information, filing an incorrect TIN, or not reporting a TIN.

The penalty for filing a Form 1099 is:

- \$60 per 1099 for the first 30 days
- \$130 per 1099 if filed between 30 days and August 1
- \$330 per 1099 if filed after August 1
- \$660 per 1099 if failure to file is due to "intentional disregard"

Other Complication Of Non-Compliance:

If you haven't complied, and don't intend to comply in the future, you will have to indicate that on your tax return. That's because every Schedule C filer is asked the following two questions:

1. Did you make any payments that would require you to file Forms 1099?
2. If yes, did you or will you file the required Forms 1099?