

The following is a summary of the filing requirements for Forms 1099 and 1098. **Please read this letter carefully and in its entirety. This letter includes information regarding these forms.**

The IRS introduced a new form for the 2020 filing season, the 1099-NEC. This new form is used to report payments related to Non-Employee Compensation, which was previously reported on Form 1099-MISC box 7.

Forms 1099 and 1098 are due on an annual basis and, as always, the IRS continues to impose stiff penalties for non-compliance or incomplete information. To avoid the penalties, now is the time to begin gathering this information so that the forms can be filed accurately and on time. The due date for the new form 1099-NEC is **February 1, 2021**. All other 1099s and 1098s are due to the IRS by **March 1, 2021** if you file via paper and **March 31, 2021** if you electronically file. Failure to file correct information returns by the due date can result in penalties of up to \$270 per form.

## ANNUAL FORM 1099

If your trade or business makes payments for the following items to any **unincorporated** business or individual, in the amounts as specified below, a Form 1099 is required:

1. Subcontractors or others providing services - \$600 or more.
2. Rents and commissions - \$600 or more.
3. Certain rental property expenses (for persons receiving rental income from real estate) - \$600 or more.
4. Royalties - \$10 or more.
5. Interest or Dividends - \$10 or more.
6. Pension/profit-sharing plans - \$10 or more.
7. Direct sales of consumer products of at least \$5,000 to a buyer for resale anywhere other than a permanent retail establishment.
8. Payments made to all providers of medical and health care services of at least \$600 must be reported regardless of whether the recipient is a professional corporation.
9. Payments made to all attorneys of at least \$600 must be reported regardless of whether the recipient is a professional corporation.

If your rental real estate activity rises to the level of a trade or business, please contact our office to discuss 1099 filing matters.

**If you would like us to prepare your 1099s, we will provide you with an electronic 1099 proforma. This will allow us to download the information to our software and eliminate input error. If you are unable to complete the proforma electronically please print the electronic copy and provide the requested information. Please also note that Forms 1099 issued to sole proprietors should be issued in the owner's name-doing business as, not the name of the company. This is true even if the taxpayer ID number being reported is a Federal Employer Identification Number (FEIN).**

Backup withholding of 24% (for tax years beginning after 2017 and before 2026) is required to be withheld and remitted to the Federal government using Form 945, for persons or entities to whom you are required to issue Form 1099, but who have not provided you with a taxpayer identification number.

See **Page 3** for sample questions related to 1099 filings.

## ANNUAL FORM 1098

If, in the course of your trade or business you **receive**, from any unincorporated individual, \$600 or more in mortgage interest income, you must file Form 1098. No reporting is required for interest received from a corporation, partnership, trust, estate, or association.

We can assist you in preparing these forms on your behalf.

## FORM DE 542

Any business deriving trade or business income from sources within this state, or subject to the laws of this state, and that is required to file a Federal Form 1099 for services performed by an independent contractor, must report specific information to the Employment Development Department on Form DE 542.

Independent contractor information must be submitted within 20 days of EITHER making payments totaling \$600 or more, OR entering into a contract for \$600 or more with an independent contractor in any calendar year.

Please contact us if you have questions on this filing requirement.

## To help you determine whether or not you need to file a 1099 we have compiled a list of typical questions

### **1. Which subcontractors, or others, providing services must receive Form 1099's?**

Any person or unincorporated company not on your payroll, providing a service, including parts & services, for which you have paid \$600 or more during the year. These persons can include subcontractors, attorneys, janitors and **SENSIBA SAN FILIPPO LLP [FEDERAL I.D. (94-2370906)]**.

### **2. When should a Form 1099 be filed for rent?**

Businesses that pay rent to an individual or unincorporated entity of \$600 or more need to file a Form 1099. For example, if the owner of your company also owns the building, you need to issue a Form 1099; or, if you pay rent to "John Smith", you also must file. If you pay rent to ABC Property Management, Inc., you do not need to file because it is a corporation.

### **3. When should a Form 1099 be filed for commissions?**

Businesses that pay commissions of \$600 or more to an unincorporated entity or any individual not employed by the business must issue a Form 1099. If the recipient of a commission is employed by you, you must include the commission on his W-2.

### **4. When do you file a Form 1099 for interest?**

Businesses that pay interest to an individual of \$10 or more on a loan must file a Form 1099 INT. For example, if a business pays interest to a shareholder the business must file a Form 1099 for the interest. Principal repayments are not reportable.