

# **1099 NEC and 1099 MISC Overview**

## **Nonemployee Compensation and Miscellaneous Information Reporting**

Employers no longer report nonemployee compensation, such as payments to independent contractors, on Form 1099-MISC. Instead these payments are reported on **Form 1099-NEC**.

Report on Form 1099-MISC only when payments are made in the course of your trade or business. **Personal payments are not reportable**. You are engaged in a trade or business if you operate for gain or profit. Payments made to partnerships, sole proprietorships, estates, and limited liability companies filing as partnerships are required to be reported on Form 1099. It is important to report the payments in the correct Form 1099 box to avoid issues with the IRS.

Currently, payments made to a corporation generally are not required to be reported, unless the payments are for medical and health care payments, attorneys' fees, gross proceeds to an attorney, substitute payments in lieu of dividends or tax-exempt interest, or payments made by a federal executive agency for services.

Please note: SCA CPAs and Advisors, PLLC is NOT a corporation and therefore a Form 1099 NEC Form IS REQUIRED to be issued to us for our services.

**There is an IRS imposed penalty up to \$570 for each 1099 not filed, or filed without an identification number.**

*You are required to furnish a 1099-NEC to the non-employee compensation recipient(s) by **January 31, 2022 and also file with the IRS by January 31.***

*1099-MISC forms are due to the recipient(s) by **January 31, 2022 for most recipients and required to be filed with the IRS by February 28 (March 31 if filing electronically).***

If the following four conditions are met, you must generally report a payment as nonemployee compensation:

- You made the payment to someone who is **not your employee**.
- You made the payment for **services rendered in the course of your trade or business**.
- You made the payment to an **individual, a partnership, an estate or, in some cases, a corporation**.
- You made payments to the payee of **at least \$600 during the year**.

### **Form 1099-NEC (Nonemployee Compensation)**

Here are some common examples of nonemployee compensation

- payments to independent contractors in the amount of \$600 or more during the year,
- fees paid in the amount of at least \$600 or more for professional services, including attorneys even if they are corporations.
- commissions paid to nonemployee salespersons that are subject to repayment but not repaid during the calendar year.
- direct sales made of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment. These may be reported in Box 2 of 1099 NEC or box 7 of 1099 MISC.

## **Form 1099-MISC**

Below is a list of common transactions which would require filing form 1099-MISC, "Miscellaneous Information", for each person to whom you have paid during the year:

- at least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest;
- at least \$600 in rents, services (including directors' fees), prizes and awards, other income payments, medical and health care payments;
- payments totaling \$600 or more to an attorney for *settlement agreements*, not for the attorney's services.
- Amounts where you withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.
- direct sales made of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment.

### **These potential 1099 recipients are often overlooked:**

- auto mechanic/service stations that repair automobiles;
- professional services such as attorneys (including corporations), accountants, architects, contractors and engineers;
- plumbers, electricians, painters, carpenters, general repair contractors, or office cleaners;
- independent contractors; and
- lessors from whom you lease equipment or office/storage space

***If you pay \$10 or more annually for interest (except to banks) and/or dividends, Forms 1099-INT and/or 1099-DIV are required to be filed by the same date.***

Please contact your trusted advisor for any questions or additional information on your 1099 filing requirements.

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