

1099s: A Little Form with a Painful Bite

By: Karen Snodgrass and Deanna Salo

When Congress tried unsuccessfully to expand the Form 1099 filing requirements a couple of years ago, at least one thing was accomplished. It raised awareness of an important IRS business reporting rule. And at \$100 per infraction, the penalty for ignoring this regulation can be painful.

That's right; the IRS can fine you \$100 for each 1099 form that you fail to file, up to a maximum penalty of \$1.5 million. The most common Form 1099 is the 1099-MISC, which is used to report payments of \$600 or more to vendors who provide services to your business. Examples include payment for repairs, accounting services, consulting fees, and legal advice. Normally if the vendor is incorporated you do not need to send them a 1099-MISC, but there is one important exception. All payments to attorneys must be reported, whether they are incorporated or not.

Timely filing of the Form 1099-MISC is also critical.

The form must be filed with the IRS by February 28 (unless you file electronically). But you must provide the vendor a copy of the form by January 31. Electronic filing is optional if you file fewer than 250 forms. If you have 250 or more forms to file, you are required to file electronically. The deadline for electronic filing is March 31.

There are a few more twists.

If you pay a vendor for parts and services, you must include the total of both of these on your form as long as the parts or materials were incidental. Reporting is also required if you provide nonemployees taxable fringe benefits or pay fees to your board of directors.

Correct reporting requires you to confirm the vendor's tax identification number.

Before you make a reportable payment to any of your vendors, the vendor should provide you with a Form W-9 (Request for Taxpayer Identification Number and Certification). The IRS also has a Taxpayer Identification Number Matching Program that allows for the matching of vendor TIN's with IRS records before submitting information returns to the IRS.

There are other types of Form 1099 to watch for.

A Form 1099-INT is used to report interest payments of \$10 or more to an individual in the course of a trade or business. Form 1099-R is used by investment companies to report distributions from retirement accounts and annuities. And businesses that make loans are required to disclose canceled debt on Form 1099-C if the amount is \$600 or more.

Transmitting the Forms 1099.

Copy A of all paper Forms 1099 (as opposed to forms transmitted electronically) must be submitted to the

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IRS along with Form 1096. Each type of Form 1099 must be transmitted with a separate Form 1096. For example, if a business files Forms 1099-MISC and 1099-INT for a given year, the Forms 1099-MISC must be transmitted with one Form 1096, and the Forms 1099-INT must be transmitted with another Form 1096.

If these reporting rules leave you uncertain of your responsibilities, give us a call. A little attention paid now might help prevent a painful penalty later.

We hope this information is helpful. If you'd like to discuss the new Act and its effect on your situation, please contact Karen Snodgrass or Deanna Salo from Cray, Kaiser Ltd. (630-953-4900), a strategic partner with the Chicago Family Business Council.

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