

Tax Tips You Can Use



Rules for 1099 MISC

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The Internal Revenue Service developed the concept of the tax gap as a way to gauge taxpayers' compliance with their federal tax obligations. The tax gap measures the extent to which taxpayers do not file their tax returns and pay the correct tax on time. In an attempt to close the Tax Gap, one area of increased emphasis is the filing of information returns. One that concerns many small businesses is the 1099 MISC.

The 1099 MISC is a form which should be sent out by businesses to service providers who are paid an amount annually of \$600 or more for services (including parts for repair). The 1099 MISC needs to be sent to both individuals, and other businesses. There are a couple of exceptions. One is that if the service provider is incorporated, no 1099 is needed. The IRS had initially tried to expand reporting to include the owners of rental property. This was later repealed, unless the rental properties were being operated as a business venture. To further confuse matters, any expenses that are paid by credit card, should not be included in the 1099 MISC. The credit card company has a requirement to report this on a newly created form, the 1099K.

The 1099 MISC needs to be mailed to the service provider before Jan 31st of each year. There is specific information you will need, including the name, address, and TIN (Taxpayer identification number) which could be a business EIN, or a social security number for the recipient. This information should be recorded on a W9.

There are also new penalties being imposed for non-compliance. There will be failure to file, and failure to furnish penalties, roughly approximating a total of \$150 for each 1099 that should have been filed and furnished to payees. In addition, the business schedules for 2011 now ask if you are required to file 1099's, and if you have or will do so. (Just imagine the audit potential if you indicate YES you should file, but NO you won't file!) Additionally, Oregon denies the deduction for the expense, if filing requirements have not been met.

Examples of people/businesses needing 1099's: (Amounts of \$600 or more):-

Subcontractors performing work for your business

Hired labor (non W2 employee)

The guy who fixes your computer

Rents paid to a landlord

A small business that repairs your equipment

The auto mechanic who repairs your business use vehicles.

The forms can be ordered online from www.irs.gov, or you can purchase forms at office supply stores (and pay too much). Along with 1099's you will need a 1096 transmittal form. (Available from all the same sources).

Happy Filing

The Jacksonville Tax Lady LLC (OR License #13695) is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso. Kathleen and Angela can be reached at 541-899-7926.

The fine print: This article is for information only. Please see your tax professional for questions about your individual tax situation.