

What you need to know about Form 1099-NEC



OMB No. 1545-0115

2019

Form **1099-MISC**

**Miscellaneous
Income**

**Copy 1
For State Tax
Department**

1	2
\$	
2 Royalties	
\$	
3 Other income	
\$	
4 Federal income tax withheld	
\$	
6 Medical and health care payments	
Substitute payments in lieu of dividends or interest	
Proceeds	

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Prior to the tax year 2020, businesses had to report nonemployee compensation and miscellaneous income on the IRS form 1099-MISC. However, for the tax year 2020 and forward, the IRS introduced the Form 1099-NEC for reporting nonemployee compensation. This document provides an overview of Form 1099-NEC and when to use that form versus Form 1099-MISC.

Historically, the IRS Form 1099-MISC was used to report both nonemployee compensation and miscellaneous income. If the form contained nonemployee compensation, then it was due by January 31st. Otherwise, if it did not contain nonemployee compensation, then the form was due by February 28th. This caused confusion among taxpayers, so the IRS decided to split reporting across two forms - 1099-NEC and 1099-MISC.

About Form 1099-NEC

Businesses will need to use the form 1099-NEC if they made payments totaling \$600 or more to a nonemployee, such as an independent contractor, freelancer, vendor, consultant, or other self-employed individual.

According to the IRS, businesses must report payments on form 1099-NEC if the payments meet the following four conditions:

- The payment is made to someone who is not your employee.
- The payment is made for services in the course of your trade or business.
- The payment was made to an individual, partnership, estate, or, in some cases, a corporation.
- The payments to the nonemployee totaled \$600 or more for the calendar year.

Additionally, businesses must file Form 1099-NEC for each person from whom they have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

For reporting, nonemployee compensation can include fees, commissions, prizes, awards, and other forms of compensation for services performed as a nonemployee for the business. Non-employee compensation should not include personal payments or employee wages.

About Form 1099-MISC

Businesses should use the Form 1099-MISC for each person in the course of their business to whom they have paid the following during the year:

At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest, or

At least \$600 in:

- Rents except if paid to a real estate agent or property manager.
- Prizes and awards.
- Other income payments.
- Generally, the cash paid from a notional principal contract to an individual, partnership, or estate.
- Any fishing boat proceeds.
- Medical and health care payments.
- Crop insurance proceeds.
- Payments to an attorney.
- Section 409A deferrals.
- Nonqualified deferred compensation.

Additionally, businesses must file Form 1099-MISC for each person from whom they have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.



Special Notes

Now that nonemployee compensation and miscellaneous compensation are split into two forms, a business may end up submitting both forms for the same vendor.

Payments to attorneys may require both forms. Gross proceeds paid to an attorney, such as services related to a specific litigation matter should be reported on Form 1099-MISC whereas attorneys' fees, such as for general business matters, should be reported on Form 1099-NEC. Please note that the reporting exemption for corporations does not apply to legal fees, so even if your law firm is a corporation, you still must report the payments.

Payments made with a credit card or payment card or certain other types of payments, including third-party network transactions, are not subject to reporting those payments on Form 1099-NEC or 1099-MISC. Those payments are reported on Form 1099-K by the payment settlement entity.

Be sure to collect a W-9 from your vendors in order to obtain their information including the Taxpayer Identification Number to ensure the accuracy of your 1099 reporting. The IRS can assess penalties for erroneous submissions, and considering that some vendors may require both forms, one error may be flagged twice.

Businesses need to file the 1099-NEC by January 31st or the next business day if the 31st falls on a weekend or holiday. The 1099-MISC must be filed by March 1st if you file on paper, or March 31 if you file electronically. If the business has more than 100 forms to submit, they must file electronically.

Next Steps

This information is meant to provide an overview of the form 1099-NEC and 1099-MISC. There are of course many details not covered. If you need help with your 1099 filing or would simply like to discuss your specific situation, please contact our office.



About Your Firm LLC

We have hand-picked a team with tax, auditing, accounting, business and management advisory expertise in a multitude of fields, including healthcare, professional-services firms, commercial contractors, home builders, real estate companies, manufacturing and distribution companies, dealerships, non-profit organizations and pension funds.

We have the expertise and the resources to provide not only the critical services you need during these evolving economic times, but also, importantly, to build for the future. Our strategic alliances with professional organizations across the country allow us to bring our clients the talent and expertise of national firms with the high-touch service of a local firm. While we remain focused on the core services of tax, accounting and audit, we expand and offer you the business consulting needed to remain competitive. We believe the success of our clients is the greatest measure of our own.



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