

Martin A. Darocha, CPA

*Tax and accounting services for individuals and
their businesses, estates and trusts.*

IMPORTANT

2011 FORM 1099 TOOLKIT

December 2011

This is a reminder that you may have a requirement to report the recipients of various non-payroll payments made during the year on one of the various versions of form 1099.

Preparing, distributing and filing the correct required 1099's protects you. Under audit, you may be subject to a \$100 penalty for each required 1099 you fail to file PLUS a fine of 28% of the 1099 amount you fail to file. Furthermore, the correct filing of 1099's may help define the business relation between you and the recipient. It is your responsibility to determine the proper classification of workers among employee, independent contractor and statutory employee. The questions asked on form SS-8 (available at www.irs.gov) may help you to make this determination. I am available if you require such assistance.

Also, the IRS has developed a new program to permit taxpayers to voluntarily reclassify workers as employees for federal employment tax purposes. A taxpayer who participates in the VCSP will agree to prospectively treat the class of workers as employees for future tax periods. In exchange, the taxpayer will pay 10 percent of the employment tax liability that may have been due on compensation paid to the workers for the most recent tax year, determined under the reduced rates of section 3509 of the Internal Revenue Code; will not be liable for any interest and penalties on the liability; and will not be subject to an employment tax audit with respect to the worker classification of the workers for prior years.

Please note that forms 1099's must be issued to the recipient by January 31, 2012 and to the IRS by February 29, 2012. There are various penalties for late and incomplete filings. If you want me to prepare these forms – I must have the correct information no later than January 16, 2012 in order to help you comply with these deadlines.

Generally, you must report payments made in the course of your business (other than to a corporation) if these payments exceed \$600 during the year. There are of course exceptions. Following are some of the more common payments that trigger the need for form 1099:

➤ 1099 – MISC

- **Rent** – Amounts greater than \$600 per year for all types of rents. Examples include – real estate, office rent, equipment rentals and farm rents.
- **Other Income** – Amounts greater than \$600 per year for various types of other income including –certain prizes and awards; punitive and compensatory damages; non-professional executor or trustee fees; certain insurance salesman's payments.
- **Non employee compensation** – Amounts greater than \$600 per year for various types of payments including - Fees, commissions and awards for services provided as a non

Martin A. Darocha, CPA

employee; Professional fees such as to accountant and lawyer; witness fees; independent contractor fees; exchange of services; certain taxable fringe benefits; directors fees.

- **Exceptions** – Even if incorporated 1099's need to be issued for certain medical and health care payments and attorney's fees.

➤ **1099 – INT**

- Interest – Payments of interest greater than \$10 per year in the course of your business.

➤ **1099 – DIV**

- Dividends – Payments of dividends or other distributions greater than \$10 or those that you have withheld income tax from.

➤ **1096 – Transmittal**

- Each 1099 series that you must file requires a separate form 1096 which summarizes the amounts and number of 1099's submitted.

There is a whole alphabet soup in the 1099 series. Following are ones you are more likely to receive rather than have to file. However, you may find the need to file them for your business. They include:

- 1099 – B Brokerage (e.g. sale of security) and bartering transactions
- 1099 – C Cancellation of debt
- 1099 – G Certain government payments – e.g. income tax refunds
- 1099 – H Health Coverage Tax Credit
- 1099 – LTC Long-term care and accelerated death benefits
- 1099 – OID Original issue discount
- 1099 – PATR Patronage Dividends
- 1099 – Q Qualified Education Payments
- 1099 – R Distributions from retirement plans, insurance policies and annuities.
- 1099 – S Proceeds from Real Estate Transactions
- 1099 – K Proceeds from internet sales (i.e. Amazon, eBay etc...)

You should request that the recipient of your payments furnish you with a form W-9. This is their verification to you that you have their correct name, address and identification number. This helps avoid mismatched information at the IRS level and therefore minimizes future correspondence and notices regarding 1099's and 1096's. A copy is enclosed for you to copy and distribute to those requiring forms 1099.

Also enclosed is a worksheet which you may copy to record the names, addresses, identification numbers and amounts to ease the preparation of forms 1099.

Also attached is form W-9 which you should obtain from anyone or entity that you need to provide a 1099.

Disclaimer: Any tax advice contained in the body of this letter is not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

If you have any questions about 1099's please feel free to contact me.

Martin A. Darocha, CPA

1099 Worksheet 2011

PLEASE COPY FOR EACH PAYEE AS REQUIRED

Your name or Company Name	
Address	
City State, ZIP	
Federal Employer Identification Number	

Payee

Name	
Address	
City, State , ZIP	
EIN or SSN	
Type of payments	Total Amounts for 2011
Rents	\$
Other payments – Describe	\$
Non Employee Compensation	\$
Interest	\$
Dividends	\$
Royalties	\$

Name	
Address	
City, State , ZIP	
EIN or SSN	
Type of payments	Total Amounts for 2011
Rents	\$
Other payments – Describe	\$
Non Employee Compensation	\$
Interest	\$
Dividends	\$
Royalties	\$