

Alma V Guenther, EA
The Right Place
817 Missouri St, suite 2
Fairfield, CA 94533
707-425-1865
707-425-4342 fax
right.place.tax@gmail.com



Eliminate Anxiety
Use an Enrolled Agent

Don't Be Left Holding the Tax Bag

It is time to gather all information for the 1099Misc forms

If this office is to prepare and file these 1099's, **we must have all the information by the first week of January. So, start gathering the information and get it to our office.**

The **due date** for filing 2020 Forms 1099-MISC and 1099NEC with the IRS is **January 31, 2021**. Both the government's copy and the one you provide the contractor are due by the same date.

If you use independent contractors in your **business or rental** and pay them \$600 or more during the calendar year, you are required to issue them a 1099-NEC after the close of the year. If you fail to do so, and you (if you operate as a Schedule C sole proprietor) or your business's income tax return is subsequently audited, you could lose the deduction for those payments and end up paying taxes on that income yourself, not to mention potential penalties.

New California law AB5 has greatly complicated the area of Independent Contractors. Those who qualified in the past may be California employees. I have included some information and worksheets to determine their status. It is your decision as to how to classify them. But, If I do not believe they qualify, then when I prepare your tax return, I cannot deduct the misclassified positions as I am personally liable if they are determined to be an employee.

A big tax trap for businesses is the \$600 reporting threshold. Say your business uses the services of an independent contractor early in the year at a cost below the \$600 threshold, and you don't bother to obtain the necessary reporting information from the contractor. If you use the contractor's services again later in the year and the combined total you've paid him or her exceeds the reporting threshold, you won't have the required reporting information.

Sorry to say, you may find it difficult to obtain that information after the fact, as not all self-employed individuals report all their income, and contractors may not be willing to give you their tax ID information once they've completed the work and gotten your payment for their services. So, it is good practice to collect that information upfront before engaging the contractor regardless of the amount.

The IRS provides Form W-9 — Request for Taxpayer Identification Number and Certification — as a means for you to obtain the data required from your vendors in order to file the required 1099-Misc or

1099 NEC forms after the close of the year. A completed W-9 also provides you with verification that you complied with the law should the vendor provide you with incorrect information.

In addition, there are **substantial penalties** if you fail to file a correct 1099-MISC/NEC by the due date and you cannot show reasonable cause for not filing. Generally, for 1099 forms due in 2021, the penalty is \$50 per 1099-MISC for not filing by the due date. The penalty increases to \$100 if the form is not filed within 30 days of the due date and \$260 after August 1, 2021. The maximum penalty for small businesses is \$532,000, so you can see *this is not a reporting requirement to be taken lightly*.

If you have questions related to your 1099-MISC/NEC reporting requirements or need assistance filing the required forms after the end of the year, please give this office a call.

Alma V Guenther, EA