



Dear Small Business Owner:

The IRS Form 1099 Report and what every business owner or sole proprietor should know when it comes to filing the form;

You must file a Form 1099-MISC if:

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest was paid.
- \$600 or more per year was paid to:
 - Medical and Health Care Payments
 - Rents
 - Prizes and Awards
 - Services (including parts and materials)
 - Proceeds Paid to Attorneys
 - Cash Payments to Fishermen
- You must also file if you've withheld ANY back-up withholding.

The IRS will be paying strict attention to who is an independent contractor and who is an employee. The basic defining criteria are:

- Behavioral Control – is there a right to direct or control how a worker does the work.
- Financial Control – does the business have the right to control the economic aspects of the job?
- Type of Relationship – how does the worker and the business perceive their relationship?

There is more detail, which we can share, and many “gray areas,” but to protect us, we will require that you sign a paper saying that you have studied the rules and the Forms 1099-MISC are for work that was performed for you by an independent contractor. Obviously, a safe position is to treat the worker as an employee and this will never be questioned.

Get a completed Form W-9 from any entity you pay that is:

- Individual/Sole Proprietor
- Partnership
- Trust/Estate
- Limited Liability Company or Limited Liability Partnership
- Update every 3 to 5 years.

Penalties may apply if you fail to:

- File in a timely manner.
- Include all necessary and accurate information.
- E-file when required.

The amount of the penalty is based on when you file the corrected information.

- \$30 PER RETURN if correctly filed within 30 days.
- \$60 PER RETURN if correctly filed more than 30 days.
- \$100 PER RETURN if filed after August 1.

Truncating Payee Identification Number on Paper Payee Statement:

- Can truncate on paper form only.
- Only a payee's SSN, ITIN, or ATIN may be truncated.
- A filer's ID may NOT be truncated.

Errors made on reporting the payer's name and/or ITIN:

- A letter is to be written to the IRS containing the type of error, correction, and number of payees affected.

If any other error is noticed after filing:

- Correct as soon as possible.
- Only submit the corrected forms – NOT the whole batch or group.
- Do NOT send corrected returns to the IRS if it pertains to state and local information.

Please feel free to contact us at (585) 671-1532 if you have any questions about this information, or if you need help processing your Forms 1099-MISC. This is a service we are pleased to offer.

Thanks for your continued support,

The Tax Team at NFS Tax Prep, Inc.