

# BEST TAX PRACTICE -

## *Issuing 1099s For Your Business*

*Legitimize your business expense!*

**BOTTOM LINE:** If you pay at least \$600 for services provided *for your trade or business* with anyone who is not your employee, you may be required to issue a 1099-NEC to that provider in order to legitimize your business expense. This is also true if you exchange other forms of compensation, SEE: BARTER & TRADING.

- Such reporting of payments is for YOUR business only
- Payments for *personal matters* are **NOT** reportable

To issue the 1099-NEC, you will need to know the information that is shown on Form W-9 ([www.irs.gov/pub/irs-pdf/fw9.pdf](http://www.irs.gov/pub/irs-pdf/fw9.pdf)). The IRS strongly advises that before you engage anyone for services, you have them fill out the W-9 and certainly before making payment to the provider. You are not REQUIRED to have the W-9 though, you will need the information contained therein when issuing your 1099-NEC. Keep the filled-out W-9 for your records.

**NOTE: Getting the necessary information BEFORE a business transaction is a lot easier than getting the information AFTER you engage in the business transaction.**

- ◇ Failure to issue the 1099-NEC can result in the IRS denying your business expense in the event that you are audited
- ◇ Issue the 1099-NEC no later than January 31, following the year in which you had the expense
  - (NOTE: Some states have separate and or additional reporting requirements including having to notify the state within a specified time after the work has been completed.)
- ◇ The IRS imposes fines if you issue the 1099-NEC after the January 31 deadline

You **can** issue 1099-NEC for your business expenses when the amount is *less than \$600* though you are **NOT required**.

Do NOT issue a 1099-NEC

- If the entity who provided the services is a corporation (including LLC's) *\*there are exceptions*
- For the purchase of any merchandise, telegrams, telephone, freight, storage and similar items

*Example001* – You are a performer and you hire an accompanist for \$200 to help you prepare for an audition. You do not hire that person for any other reasons throughout the year; at the end of the year you paid that person a total of \$200. You can take the expense though you are NOT required to issue a 1099-NEC as the yearly total paid to that person has not yet reached \$600. (Though not required to issue the 1099, you may, if you desire.)

*Example002* – You hire a web designer for your business. You pay the designer \$200 per session and you have a total of 4 sessions throughout the year. The designer is not incorporated. You **MUST** issue that designer a 1099-NEC for the \$800 (\$200x4) you paid the designer throughout the year.

*Example003* – You are a W2 employee for a large company; you work in their office, you do not work from home; you have no other trade or business you perform. You hire the handyman to repair your broken sidewalk in front of your house for which you pay \$780. You do **NOT** issue a 1099-NEC, as you have no trade or business for which you are incurring the expense; for you, the expense is considered personal and not business (though, the handyman is required to declare all of the income on their tax return as it is about income for them).

**NOTE:** You must include your Taxpayer Identification Number (TIN) on any 1099 you issue. This is your Social Security Number (SSN) unless you have applied for and received an EIN from the IRS in which case you can use your EIN in lieu of your Social. You are strongly advised to consider getting an EIN for such purposes.

There are a number of options of how to issue 1099-NEC. The simplest may be to use an online service that walks you through the process. Ensure that you select, if asked, that the 1099's be sent to the vendors and also select that Form 1096 to be automatically filed with the IRS for you, showing that you issued the 1099-NEC's (Form 1096 is the document the IRS receives when you issue a 1099-NEC to the vendor). Here, in no particular order, are some online options for issuing 1099-NEC's; there are others. *No endorsement is implied.*

[www.efile4biz.com](http://www.efile4biz.com), [www.efile1099now.com](http://www.efile1099now.com), [www.1099online.com](http://www.1099online.com), and <http://eagleviewfiling.com>

There are many other rules with regards to issuing a 1099-NEC and there are many different types of 1099's. The information on this 1-sheet are about the federal rules; more information can be found at [www.irs.gov](http://www.irs.gov). States may have their own and different rules.