

Best Tax Practices - Issuing 1099s For Your Business

Legitimize your business expense

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

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

To issue the 1099-MISC, you will need to know the information that is on the Form W-9 (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-MISC). Keep the filled-out W-9 for your records.

NOTE: Getting the information BEFORE is a lot easier than getting the information AFTER.

- Failure to issue the 1099-MISC can result in the IRS denying the expense in the event that you are audited (eventually, the rules will be that you are not allowed to *even take the expense* if you do not issue the 1099-MISC)
- Issue the 1099-MISC on or before January 31, following the year in which you had the expense
- The IRS imposes fines if you issue the 1099-MISC after the January 31 deadline

You can issue 1099-MISC for amounts less than \$600 though you are **NOT required**.

Do NOT issue a 1099-MISC

- If the person 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 an 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-MISC.

*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-MISC 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-MISC, 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).*

There are a number of options of how to issue 1099-MISC. 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-MISC's (Form 1096 is the document the IRS receives when you issue a 1099-MISC to the vendor). Here, in no particular order, are some online options for issuing 1099-MISC's; there are others. No endorsement is implied.

www.efile4biz.com, www.efile1099now.com, www.1099online.com, and <http://eagleviewfiling.com>

There are many other rules with regards to issuing a 1099-MISC and there are many different types of 1099's. More information can be found at www.irs.gov.