

1099 compliance in 2021: Prepare by year-end 2020

November 11, 2020

Webinar starts at noon CT



Cindy McSwain
Senior Vice President
Outsourcing Services

Presented by
AGH 
EMPLOYER SOLUTIONS

Administration



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Please provide your feedback
at the end of today's presentation.

About the speaker



Cindy McSwain

Senior Vice President
Outsourcing Services

Leads AGH's outsourcing services
15+ years outsourcing experience
15+ years audit experience

Member of AICPA, KSCPA, APA and numerous
civic organizations

Learning objectives

Requirements

- Types of payments
- Thresholds

Understand

- Deadlines
- IRS filing requirements
- Penalties for noncompliance

Know

- Get ready
- Best practices
- Common errors

What's new?

**Form 1099-NEC
revived**

**Redesign of Form
1099-MISC**

**No 1099-C for PPP
loan forgiveness**

- IRS Announcement 2020-12, Internal Revenue Bulletin 2020-41 9/22/20

THE FORMS

FOCUSING ON 1099-NEC
AND 1099-MISC

The forms

- Alphabet soup
- Form 1099-NEC new
- Form 1099-NEC old
- Form 1099-NEC revised
- Form 1099-MISC resources

1099 alphabet soup

1099-NEC	Nonemployee Compensation
1099-MISC	Miscellaneous Income
1099-INT	Interest Income
1099-DIV	Dividends and Distributions
1099-B	Proceeds from Broker and Barter Exchange Transactions
1099-C	Cancellation of Debt
1099-G	Certain Government Payments
1099-OID	Original Issue Discount
1099-PATR	Taxable Distributions Received from Cooperatives
1099-Q	Payments from Qualified Education Programs
1099-R	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

More alphabet soup

1099-A	Acquisition or Abandonment of Secured Property
1099-CAP	Changes in Corporate Control and Capital Structure
1099-H	Health Coverage Tax Credit Advance Payments
1099-K	Payment Card and Third Party Network Transactions
1099-LS	Reportable Life Insurance Sale
1099-LTC	Long-term Care and Accelerated Death Benefits
1099-QA	Distributions from ABLE Accounts
1099-S	Proceeds from Real Estate Transactions
1099-SA	Distributions from an HSA, Archer MSA, or Medicare Advantage MSA
1099-SB	Seller's Investment in Life Insurance Contract

Even more alphabet soup

1042-S	Foreign Person's US Source Income Subject to Withholding
1097-BTC	Bond Tax Credit
1098	Mortgage Interest Statement
1098-C	Contributions of Motor Vehicles, Boats, and Airplanes
1098-E	Student Loan Interest Statement
1098-MA	Mortgage Assistance Payments
1098-Q	Qualifying Longevity Annuity Contract Information
1098-T	Tuition Statement

Too much alphabet soup

3921	Exercise of an Incentive Stock Option Under Section 422(b)
3922	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)
5498	IRA Contribution Information
5498-ESA	Coverdell ESA Contribution Information
5498-QA	ABLE Account Contributions Information
5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
W-2G	Certain Gambling Winnings
W-2	Wage and Tax Statement

**This doesn't include the forms required
under the Affordable Care Act!**



What's new?

New 1099-NEC

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

OMB No. 1545-0116

2020

Nonemployee Compensation

**Copy B
For Recipient**

1 Nonemployee compensation

\$

PAYER'S TIN

RECIPIENT'S TIN

RECIPIENT'S name

3

Street address (including apt. no.)

4 Federal income tax withheld

\$

City or town, state or province, country, and ZIP or foreign postal code

FATCA filing requirement

☐

Account number (see instructions)

5 State tax withheld

\$

6 State/Payer's state no.

7 State income

\$

Form **1099-NEC** (keep for your records)

www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

**Due to recipients and IRS
by January 31***

* Actual deadline is February 1, 2021 since January 31, 2021 falls on a Sunday

What's new?

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115	Miscellaneous Income
		\$	2019	
		2 Royalties	Form 1099-MISC	
PAYER'S TIN		3 Other income	4 Federal income tax withheld	Copy B For Recipient
		\$	\$	
PAYER'S TIN		5 Fishing boat proceeds	6 Medical and health care payments	
RECIPIENT'S TIN		\$	\$	
RECIPIENT'S name		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		7 moved to 1099-NEC	\$	
City or town, state or province, country, and ZIP or foreign postal code		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds	
Account number (see instructions)		11	12 Section 409A deferrals	
FATCA filing requirement <input type="checkbox"/>		13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	
15a Section 409A deferrals		16 State tax withheld	17 State/Payer's state no.	18 State income
15b Section 409A income		\$	\$	\$
\$		\$	\$	\$

Form **1099-MISC** (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Direct sales \$5,000+... →

Crop insurance proceeds →

Gross proceeds paid to an attorney

Nonqualified deferred compensation

Becomes box 15

Becomes box 16

Becomes box 17

What's new?

Revised 1099-NEC

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115		Miscellaneous Income
		\$	2020		
		2 Royalties	Form 1099-MISC		
PAYER'S TIN		3 Other income	4 Federal income tax withheld		Copy B For Recipient
		\$	\$		
RECIPIENT'S TIN		5 Fishing boat proceeds	6 Medical and health care payments		This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest		
		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney		
		\$ was Box 10	\$ was Box 14		
Account number (see instructions)		11	12 Section 409A deferrals		
		13 Excess golden parachute payments	14 Nonqualified deferred compensation		
FATCA filing requirement <input type="checkbox"/>		15 State tax withheld	16 State payer's state no.		
		\$ was Box 16	\$ was Box 17		
		\$	\$ was Box 18		

Form 1099-MISC (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

**Due to recipients by
end of January ***

**Due to IRS by
end of February ****

**(end of March if filing
electronically)**

* Actual deadline is February 1, 2021 since January 31, 2021 falls on a Sunday

** Actual deadline is March 1, 2021 since February 28, 2021 falls on a Sunday

What about corrections?

- For years prior to 2020: use the form originally used
- For 2020 and after: use the form originally used

What's new?

2020

General Instructions for Certain Information Returns

(Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)



Department of the Treasury
Internal Revenue Service

2020

Instructions for Forms 1099-MISC and 1099-NEC

Miscellaneous Income and Nonemployee Compensation



Department of the Treasury
Internal Revenue Service

2020

Instructions for Forms 1099-INT and 1099-OID

Interest Income and Original Issue Discount



Department of the Treasury
Internal Revenue Service

2020

Instructions for Form 1099-DIV

Dividends and Distributions



Department of the Treasury
Internal Revenue Service



www.irs.gov



Publication 1220

Specifications for Electronic Filing of Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G

For Tax Year 2020

What's new?

2020

General Instructions for Certain Information Returns

(Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)



Department of the Treasury
Internal Revenue Service

Guide to Information Returns (If any date shown falls on a Saturday, Sunday, or legal holiday in the District of Columbia or where the return is to be filed, the due date is the next business day.)

Form	Title	What To Report	Amounts To Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-INT	Interest Income	Interest income (including payments reported pursuant to an election described in Regulations section 1.1471-4(d)(5)(i)(A) or reported as described in Regulations section 1.1471-4(d)(2)(iii)(A)); market discount subject to an election under section 1278(b). Tax exempt interest is also reported on this form.	\$10 or more (\$600 or more in some cases)	February 28*	January 31**
1099-NEC	Nonemployee Compensation	Payments for services performed for a trade or business by people not treated as its employees (including payments reported pursuant to an election described in Regulations section 1.1471-4(d)(5)(i)(A) or reported as described in Regulations section 1.1471-4(d)(2)(iii)(A)). Examples: fees to subcontractors or directors and golden parachute payments.	\$600 or more	January 31	January 31

Polling question #1

Please answer for continuing education credit

LEARNING OBJECTIVE

TYPES OF PAYMENTS

Requirements

- Types of payments
- Thresholds

Requirements: which payments?

Start

Payments made in the course
of your trade or business



then remove the **exceptions.**

End

Requirements: which payments?

EXCEPTION (not reportable):

Payments to a corporation (C Corporation, S Corporation or LLC treated as C- or S-Corporation)

EXCEPTION TO THE CORPORATION EXCEPTION (these ARE reportable):

- Medical and health care payments (MISC box 6)
- Gross proceeds paid to an attorney (MISC box 10)
- Substitute payments in lieu of dividends or tax-exempt interest (MISC box 8)
- Fish purchases for cash (NEC box 1)
- Attorney fees (NEC box 1)
- Payments by a federal executive agency for services (NEC box 1)



Requirements: which payments?

EXCEPTIONS (not reportable):

- Payments for merchandise, telegrams, telephone, freight, storage and similar items
- Payment of rent to real estate agents or property managers (they must report the rent)
- Wages to employees (report on W-2)
- Military differential wage payments
- Business travel allowances paid to employees (could be W-2)
- Cost of current life insurance protection (W-2 or 1099-R)



Requirements: which payments?

MORE EXCEPTIONS (not reportable):

- Payments to tax-exempt organizations
- Payments made to or for homeowners from HFA Hardest Hit Fund or similar state program
- Compensation for certain injuries and sickness (certain restrictions apply)
- Compensation for wrongful incarceration



Requirements: which payments?

AND THERE ARE MORE EXCEPTIONS (not reportable):

- Payments made with a credit card or payment card (1099-K)
- Fees paid to informers
- Scholarship payments
- Difficulty of care payments
- Canceled debt (1099-C)



Recap: which payments?



Start with **ALL** payments



Filter out the **EXCEPTIONS**

Don't forget the **EXCEPTIONS TO THE EXCEPTIONS!**

Polling question #2

Please answer for continuing education credit

LEARNING OBJECTIVE

THRESHOLDS

Requirements

- Types of payments
- Thresholds

Requirements: thresholds

AT LEAST \$10

- 1099-INT
- 1099-DIV
- 1099-R
- 1099-MISC
 - Gross royalties (box 2)
 - Substitute dividends and tax-exempt interest reportable by brokers (box 8)



Requirements: thresholds

AT LEAST \$600 PAID FOR

- 1098 (mortgage interest)
- 1099-C **but not for PPP Loan Forgiveness**
- 1099-NEC
 - Services performed by someone who is not your employee (including parts and materials) (box 1)
 - Attorneys' fees (box 1)*
 - Cash payments for fish you purchase from anyone engaged in the trade or business of catching fish (box 1)



*Exception for corporations does **NOT** apply

Requirements: thresholds

AT LEAST \$600 PAID FOR

1099-MISC

- Rents (box 1)
- Prizes and awards (box 3)
- Other income payments (box 3)
- Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3)
- Any fishing boat proceeds (box 5)
- Medical and health care payments (box 6)*
- Crop proceeds paid to an attorney (box 9)
- Gross proceeds paid to an attorney (box 10)*
- Section 409A deferrals (box 12)
- Nonqualified deferred compensation (box 14)



*Exception for corporations does **NOT** apply

Requirements: thresholds

NO THRESHOLD

1099-MISC

- Payments to crew members of fishing boats, including payment of proceeds from catch
- Income from nonqualified deferred compensation plans

1099-MISC / 1099-NEC

Anyone with backup tax withholding regardless of the amount of the payment

Other considerations

DECEASED EMPLOYEE WAGES

Payments after the date of death but same year as death:

- Withhold Social Security and Medicare taxes
- Report them only as Social Security and Medicare wages on W-2
- Report payments to the estate or beneficiary in box 3 of Form 1099-MISC (other income).

Payments in a different year than year of death:

- Report nothing on W-2
- Use Form 1099-MISC box 3 (other income).

Other considerations

DECEASED EMPLOYEE DEATH BENEFITS

Payments after the date of death but same year as death:

- Payments from non-qualified plans → 1099-MISC
- Payments from qualified plans → 1099-R

Other considerations

WHEN TO APPLY BACKUP WITHHOLDING

Failure to furnish TIN in the manner required

Notice from the IRS

- Of incorrect payee TIN
- That payee is subject to backup withholding due to notified payee underreporting

Payee failure to certify that he/she is not subject to backup withholding (interest and dividends only)

Other considerations

FOREIGN CONTRACTORS

- Form W-8 series (similar to W-9)
- Form 1042 series (similar to 1099s)

BE AWARE OF ANY PAYMENTS MADE TO:

- a foreign company
- for services provided INSIDE the United States

Polling question #3

Please answer for continuing education credit

LEARNING OBJECTIVE

FILING DETAILS

Understand

- Deadlines
- Extensions
- How to file
- Penalties for noncompliance

Reporting deadlines

Form	To recipient	To IRS (paper)	To IRS (electronic)
1099-NEC	Jan. 31*	Jan. 31*	Jan. 31*
1099-MISC Box 8 - Substitute dividends and tax-exempt interest payments reportable by brokers	Feb. 15	Feb. 28**	Mar. 31
1099-MISC Box 10 - Gross proceeds paid to attorney	Feb. 15	Feb. 28**	Mar. 31
1099-MISC All others	Jan. 31*	Feb. 28**	Mar. 31

*Actual deadline is February 1, 2021 since January 31, 2021 falls on a Sunday

**Actual deadline is March 1, 2021 since February 28, 2021 falls on a Sunday

Reporting deadlines

Form	Amounts to report	To recipient	To IRS (paper)	To IRS (electronic)
1099-INT	\$10 or more (\$600 or more in some cases)	Jan. 31*	Feb. 28**	Mar. 31
1099-DIV	\$10 or more, except \$600 or more for liquidations	Jan. 31*	Feb. 28**	Mar. 31
1099-R	\$10 or more	Jan. 31*	Feb. 28**	Mar. 31
1099-G	\$10 or more for refunds and unemployment	Jan. 31*	Feb. 28**	Mar. 31
1099-C	\$600 or more	Jan. 31*	Feb. 28**	Mar. 31
1098-T	See form instructions	Jan. 31*	Feb. 28**	Mar. 31

*Actual deadline is February 1, 2021 since January 31, 2021 falls on a Sunday

**Actual deadline is March 1, 2021 since February 28, 2021 falls on a Sunday

Extensions

Furnishing statements to recipients:

- Letter to IRS by Jan. 31 (not automatic)
- If granted, generally max of 30 extra days

Filing with the IRS:

- Automatic 30-day extension
- Must complete Form 8809 (electronically or paper)
- No signature or explanation is required.
- Additional 30-day extension can be applied for under certain conditions.

How to file with the IRS

Electronically

- Required for 250 or more information returns (per type)
- Apply separately for original filings and corrections
- Does not apply if you apply for and receive a hardship waiver

Paper

- Include Form 1096 transmittal form

Penalties

THREE TYPES OF PENALTIES

Failure to file correct
information returns
by due date

Failure to furnish
correct payee
statements

Failure to file
electronically



Penalties

#1 Failure to file correct information returns by the due date

If correctly filed within	Per return	Maximum penalty	Small business maximum penalty
30 days	\$50	\$565,000	\$197,500
By Aug. 1	\$110	\$1,696,000	\$565,000
After Aug. 1 or not filed at all	\$280	\$3,392,000	\$1,130,500
Intentional disregard	\$560	None	None

*Small businesses

- Average annual gross receipts for the three most recent tax years (or for the period which you were in existence, if shorter)
- Ending before the calendar year in which the information returns were due
- Are \$5 million or less

Penalties

#2 Failure to furnish correct payee statements:



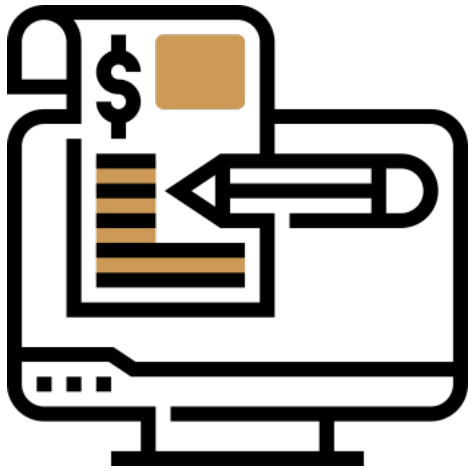
Separate penalty

Applied in same manner as "failure to file correct information returns by due date"

Amount of penalty based upon when you furnish correct payee statement

Penalties

#3 Failure to file electronically (if required)



- Up to **\$270** per return for each return over 250
- Applies separately to original and corrected returns



Penalty exceptions

Due to **reasonable cause** and not willful neglect

Inconsequential error or omission is not considered a failure to include correct information

De minimis rule for corrections

NOTICE CP-2100

Notice of incorrect recipient information

Compare your internal records to IRS Notice

1. Missing / Obviously Incorrect TIN
 - Begin backup withholding immediately
2. Incorrect Name and TIN Combination – Clerical Error
 - Use the correct information in future 1099 filings
3. Incorrect Name and TIN Combination – No Clerical Error
 - Send “B” Notices (backup withholding)

IRS PUBLICATION 1281

Backup Withholding for missing and Incorrect Name/TINS

IRS PUBLICATION 1586

Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINS

What about states?

Combined Federal State Filing (CFSF)
Research state-by-state requirements



What about 1099-NEC?

LEARNING OBJECTIVE

HOW TO GET READY

Know

- Get ready
- Best practices
- Common errors

How to prepare?

Education, research and review

Education

- Annual training
- IRS instructions

Research

- State filing requirements
- Electronic filing requirements

Preliminary Review

- Ask questions
- Follow up

Form W-9/W-9S

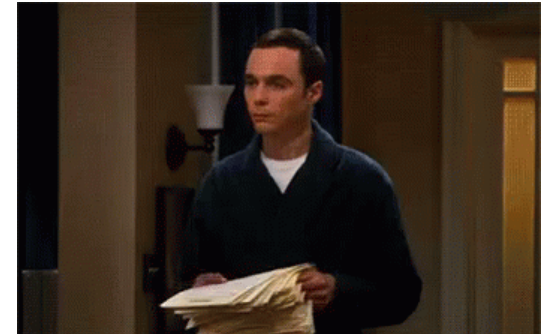
Form W-9 (Rev. October 2018) Department of the Treasury Internal Revenue Service		Request for Taxpayer Identification Number and Certification		Give Form to the requester. Do not send to the IRS.
▶ Go to www.irs.gov/FormW9 for instructions and the latest information.				
Print or type. See Specific Instructions on page 3.	1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.			
	2 Business name/disregarded entity name, if different from above			
	3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only one of the following seven boxes.		4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):	
	<input type="checkbox"/> Individual/sole proprietor or single-member LLC		Exempt payee code (if any) _____	
	<input type="checkbox"/> C Corporation		Exemption from FATCA reporting code (if any) _____	
	<input type="checkbox"/> S Corporation		(Applies to accounts maintained outside the U.S.)	
	<input type="checkbox"/> Partnership			
<input type="checkbox"/> Trust/estate				
<input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ▶ _____				
Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is not disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner.				
<input type="checkbox"/> Other (see instructions) ▶ _____				
5 Address (number, street, and apt. or suite no.) See instructions.		Requester's name and address (optional)		
6 City, state, and ZIP code				
7 List account number(s) here (optional)				

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

Note: If the account is in more than one name, see the instructions for line 1. Also see *What Name and Number To Give the Requester* for guidelines on whose number to enter.

Social security number										
				-			-			
or										
Employer identification number										
				-						



Form W-9/W-9S penalties

Act	Penalty
Failure to furnish TIN	\$50 for each such failure
False information with respect to withholding	\$500 civil penalty
Falsifying information	Criminal penalty

How to prepare?

EDUCATION, RESEARCH AND REVIEW



EDUCATION

- Annual training
- IRS instructions



RESEARCH

- State filing requirements
- Electronic filing requirements



PRELIMINARY REVIEW

- Ask questions
- Follow up

How to prepare?



Start with **ALL** payments

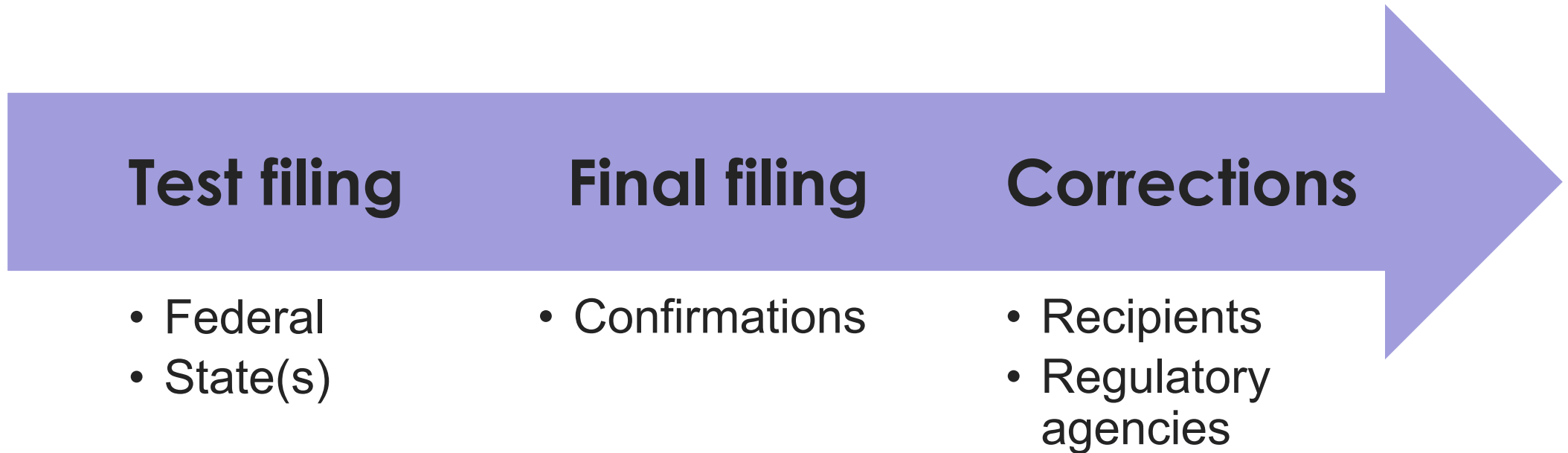


Filter out the **EXCEPTIONS**

Don't forget the **EXCEPTIONS TO THE EXCEPTIONS!**

How to prepare?

FINALIZING AND FILING



Common errors

AVOID THESE MISTAKES

1. Duplicate filings
2. Filer's name on transmittal (Form 1096) doesn't match underlying returns
3. Decimal point to show dollars and cents omitted
4. Two or more types of returns submitted with one transmittal (Form 1096)
5. Incorrectly completed Form W-9
 - Disregarded entities



Best practices

FOLLOW THESE SUGGESTIONS:

1. Solicit information for all vendors and contractors.
2. Utilize the IRS TIN matching program.
3. Use all 1099 related features of your software.
4. Compare payroll and accounts payable records for duplicate payees.
5. Train accounts payable personnel annually.
6. Review your electronic data file for reasonableness.



Polling question #4

Please answer for continuing education credit

Useful resources

IRS guidance and help



2020 IRS guidance

Instructions

Certain Information Returns – General Instructions

<https://www.irs.gov/pub/irs-pdf/i1099gi.pdf>

Form 1099-MISC and 1099-NEC

<https://www.irs.gov/pub/irs-pdf/i1099misc.pdf>

Forms

Form 1099-NEC

<https://www.irs.gov/pub/irs-pdf/f1099nec.pdf>

Form 1099-MISC

<https://www.irs.gov/pub/irs-pdf/f1099misc.pdf>



2020 IRS guidance

Publication 1220

Specifications for Electronic Filing

<https://www.irs.gov/pub/irs-pdf/p1220.pdf>

Publication 1281

Backup Withholding for Missing and Incorrect Name/TINs

<https://www.irs.gov/pub/irs-pdf/p1281.pdf>

Publication 1586

Reasonable Cause Regulations & Requirements for Missing and Incorrect Name/TINs

<https://www.irs.gov/pub/irs-pdf/p1586.pdf>

Thank you for attending



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