

# 1099 compliance in 2022: Prepare by year-end 2021

November 16 at noon CT

# Continuing education credits available

Please answer at least **three** polling questions.



Recording & slides will be available



For best audio quality, call in by phone





Questions? Ask away!



# Don't forget our survey





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Cindy leads AGH's outsourcing services team.

15+ years of outsourcing experience,  
15+ years of 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

- Getting ready
- Best practices
- Common errors

To Do:





# What is new?

This year's changes are not as significant as last year.

1099-NEC included in CFSF program

New address for Austin Submission Processing Center

Electronic filing thresholds

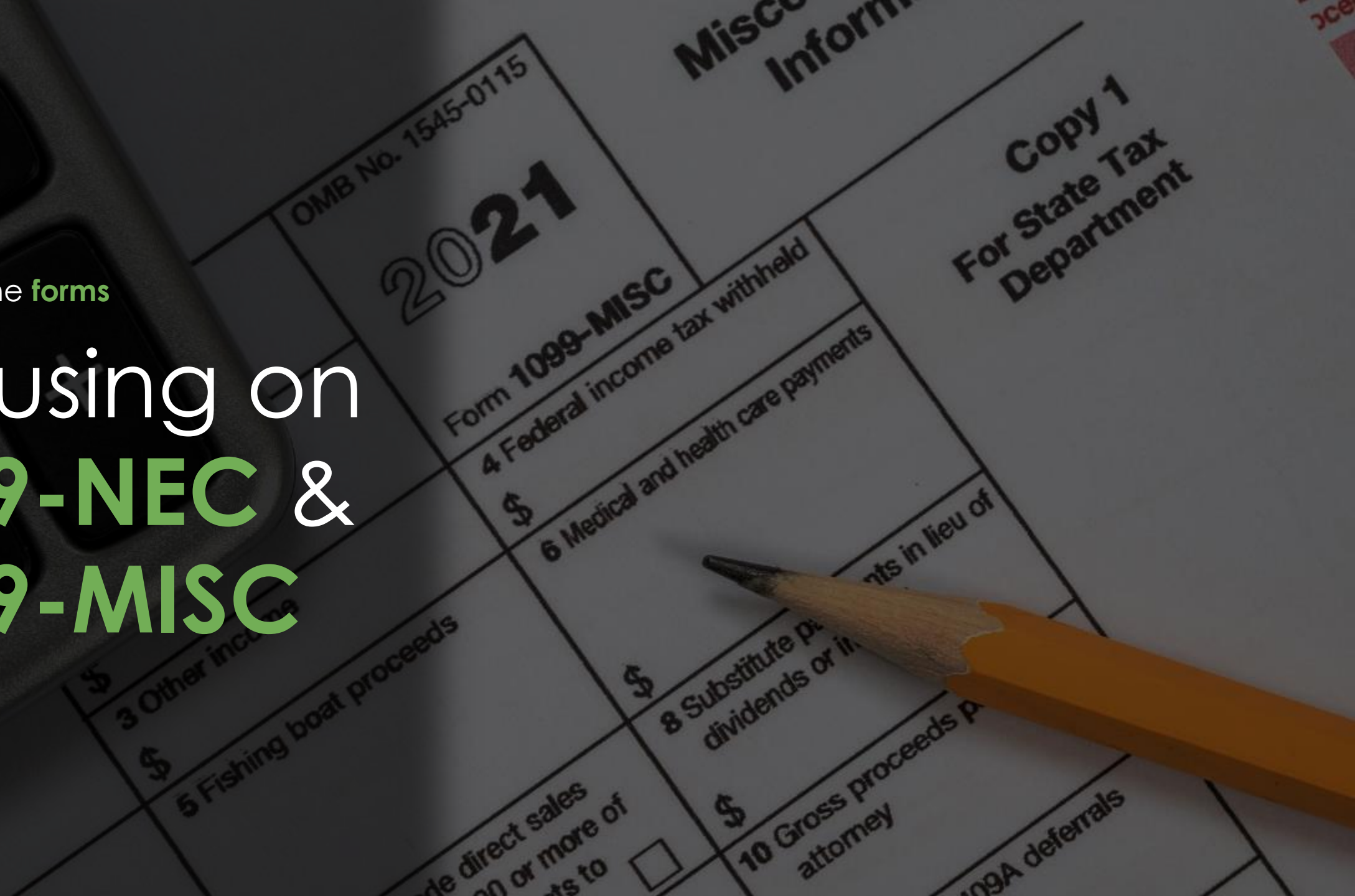
Extension of time is now a fax-only submission

Other



Section 1: The forms

# Focusing on 1099-NEC & 1099-MISC



# 1099 alphabet soup

Form	Description
1099-NEC	Nonemployee compensation
1099-MISC	Miscellaneous income
1099-INT	Interest income
1099-DIV	Dividends & 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

But wait...there's more!

Form	Description
1099-A	Acquisition or abandonment of secured property
1099-CAP	Changes in corporate control & 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

When will it stop?

Form	Description
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

This does *not* include the forms required under the Affordable Care Act (ACA).



Form	Description
3921	Exercise of an incentive stop option under Section 422(b)
3922	Transfer of stock acquired through an employee stock purchase plan (Sec 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



# 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	<b>2021</b> Form 1099-NEC	<b>Nonemployee Compensation</b>	
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$		<b>Copy B For Recipient</b> 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		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>			
Street address (including apt. no.)		3			
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$			
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](http://www.irs.gov/Form1099NEC) Department of the Treasury - Internal Revenue Service

Threshold: \$600

Due to recipient: Jan. 31

Due to IRS: Jan. 31



# 1099-MISC

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 Information	
			\$	2021		
			2 Royalties			\$
			3 Other income	\$		Form 1099-MISC
PAYER'S TIN		RECIPIENT'S TIN	5 Fishing boat proceeds	4 Federal income tax withheld	Copy B For Recipient	
			\$	\$		
RECIPIENT'S name		7 Payer made direct sales totaling \$6,000 or more of consumer products to recipient for resale <input type="checkbox"/>	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.)		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney	\$		
City or town, state or province, country, and ZIP or foreign postal code		11 Fish purchased for resale	12 Section 409A deferrals	\$		
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments	14 Nonqualified deferred compensation	\$		
			15 State tax withheld	16 State/Payer's state no.	17 State income	
			\$		\$	
			\$		\$	

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

**Threshold: \$600**  
**Due to recipient: Jan. 31**  
**Due to IRS: Feb. 28\***

\*Mar. 31 if filed electronically





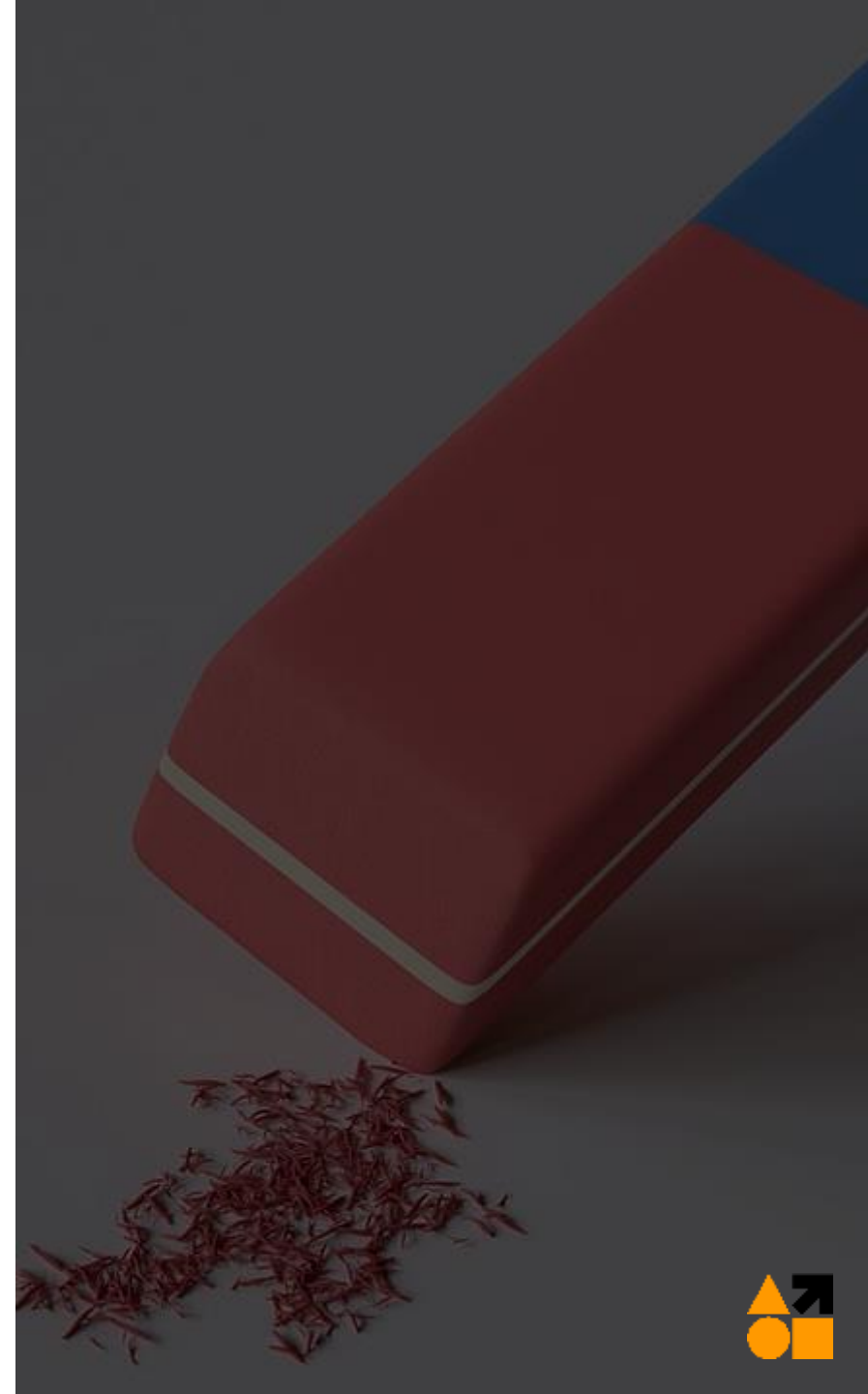
# What about corrections?

## For years prior to 2020

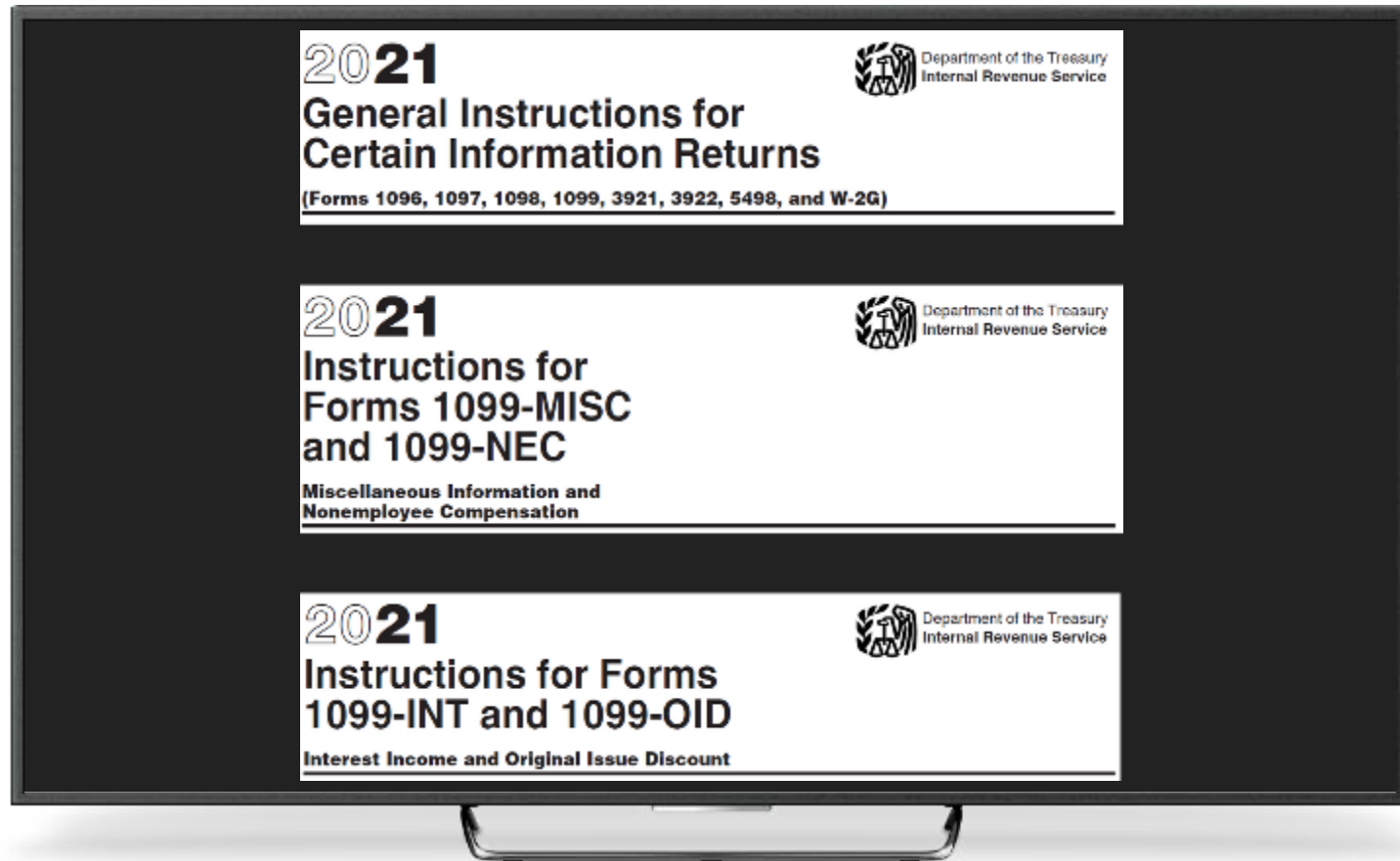
Use the form originally used

## For 2020 and after

Use the form originally used



# What is new?



[IRS.gov](https://www.irs.gov)

## Publication 1220

Specifications for electronic filing of forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G for tax year 2021.



# What is new?

2021



Department of the Treasury  
Internal Revenue Service

## General Instructions for Certain Information Returns

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

**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.)**

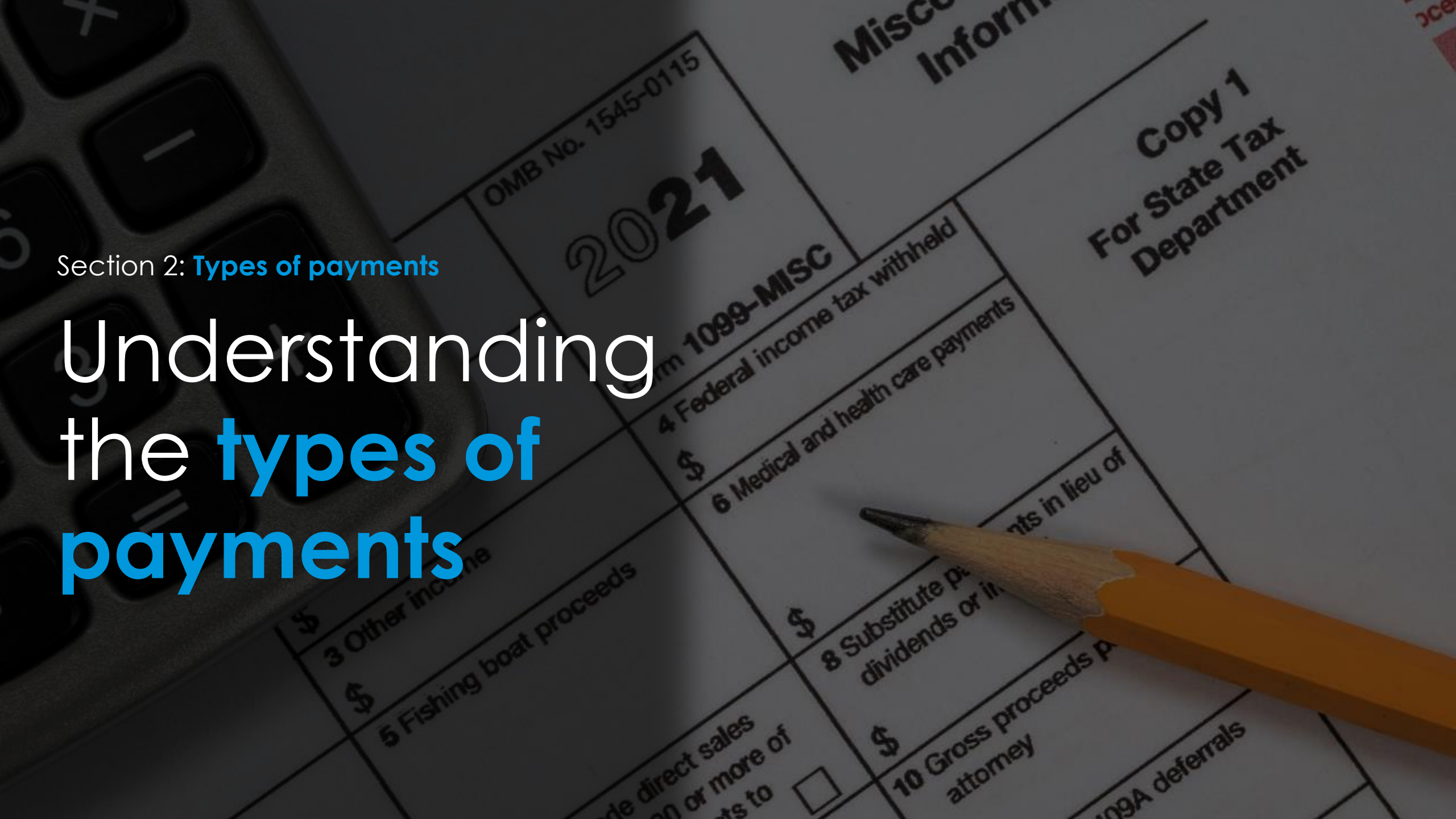
Form	Title	What To Report	Amounts To Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-INT	Interest Income	Interest income (including payments reported pursuant to an election described in Regulations section 1.1471-4(d)(5)(i)(A) or reported as described in Regulations section 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**



Section 2: **Types of payments**

# Understanding the **types of payments**



# Requirements: Which payments?

Start

Payments **made in the course** of your trade or business...

then remove the **exceptions.**

End



# Requirements: Which payments?

## Corporation Exception (not reportable)

Payments to a corporation:

C corporation

S Corporation

LLC treated as C- or S-Corporation

## Exception to the Corporation Exception

- Medical & 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?

But wait, there are more exceptions...

## 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?

Even more exceptions!

## 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?

Confused? Start here...



Start with  
**ALL** payments



Filter out the  
**EXCEPTIONS**



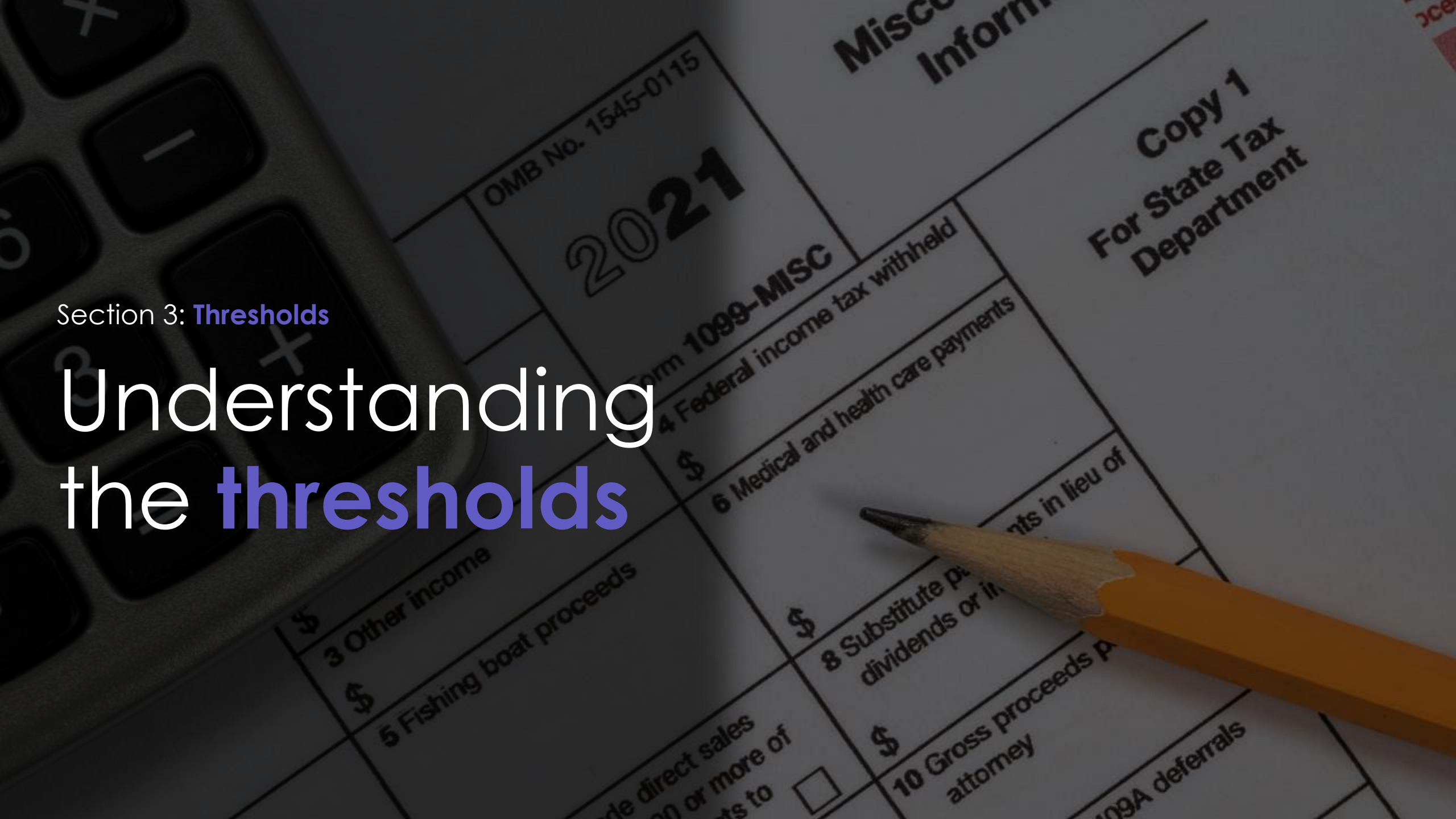
Don't forget the  
**EXCEPTIONS  
TO THE EXCEPTIONS**



# **Polling question #2**

Section 3: **Thresholds**

# Understanding the **thresholds**

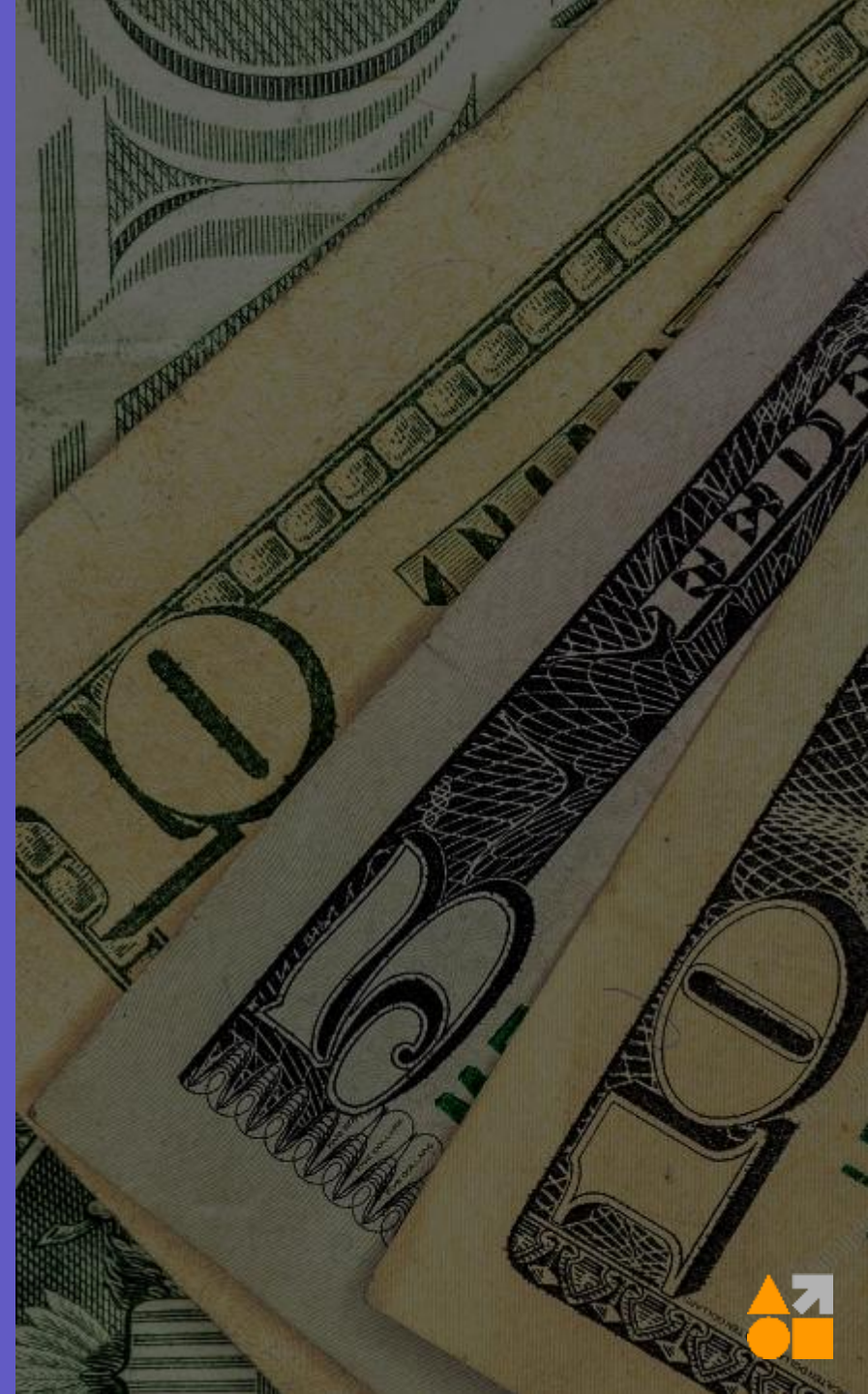




# Requirements: Thresholds

## 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 principal contract to an individual, partnership or estate (box 3)
- Any fishing boat proceeds (box 5)
- Medical & 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)
- Non-qualified deferred compensation (box 14)

\*Exceptions 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 non-qualified deferred compensation plans

### **1099-MISC/1099-NEC**

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



# Other considerations

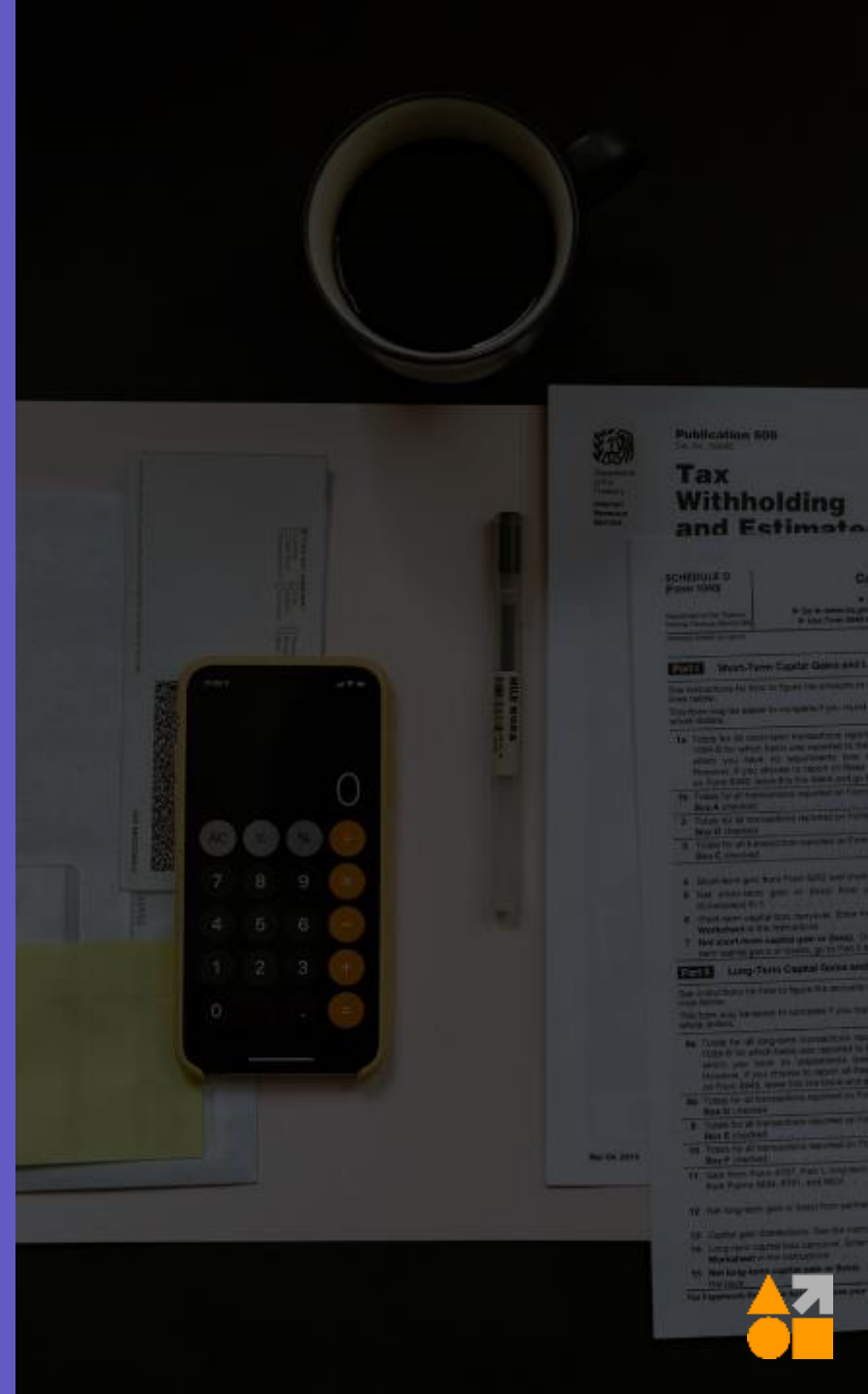
## Deceased employee wages

### 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 (other income) (box 3)



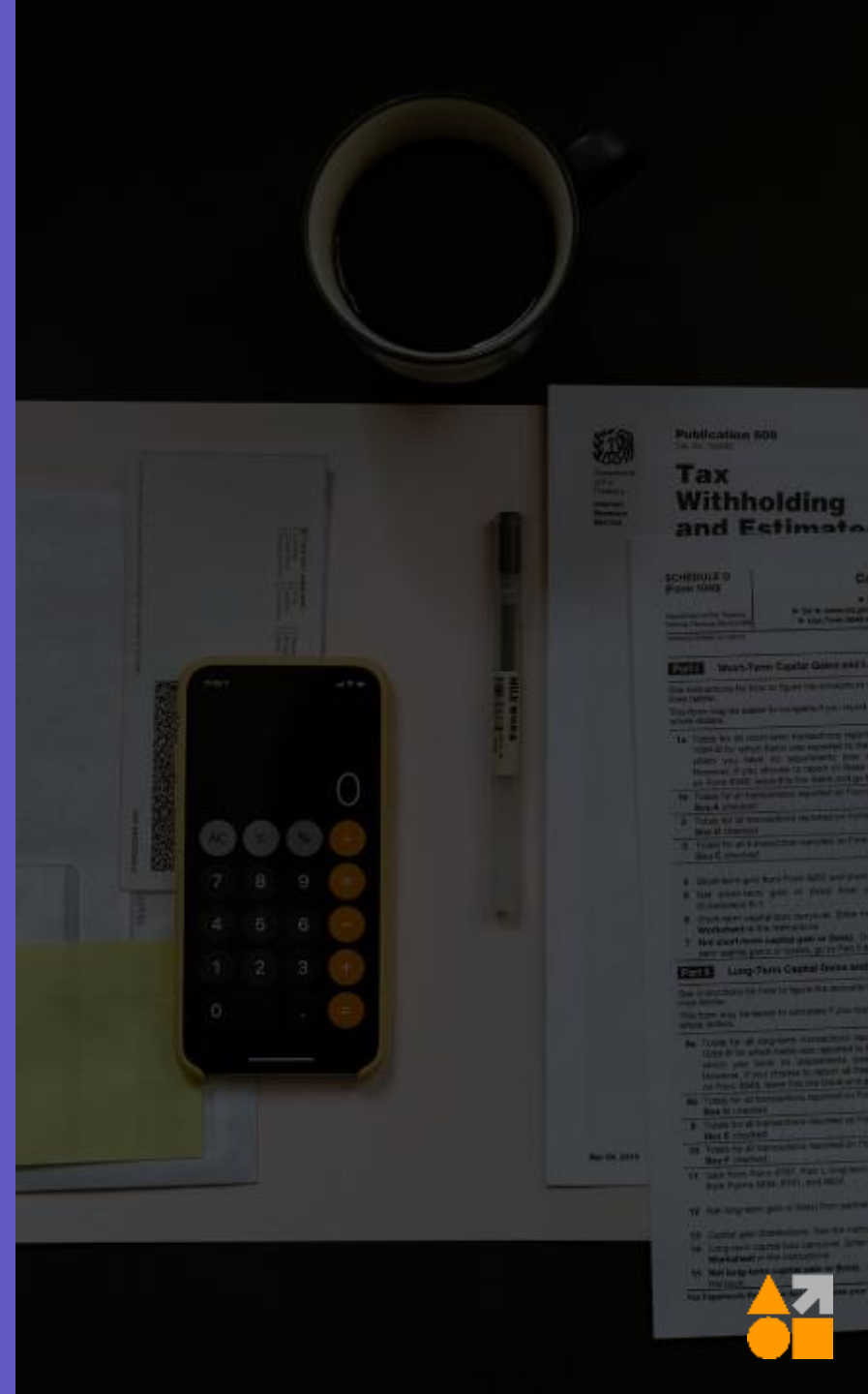


# Other considerations

## 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**

- 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:**

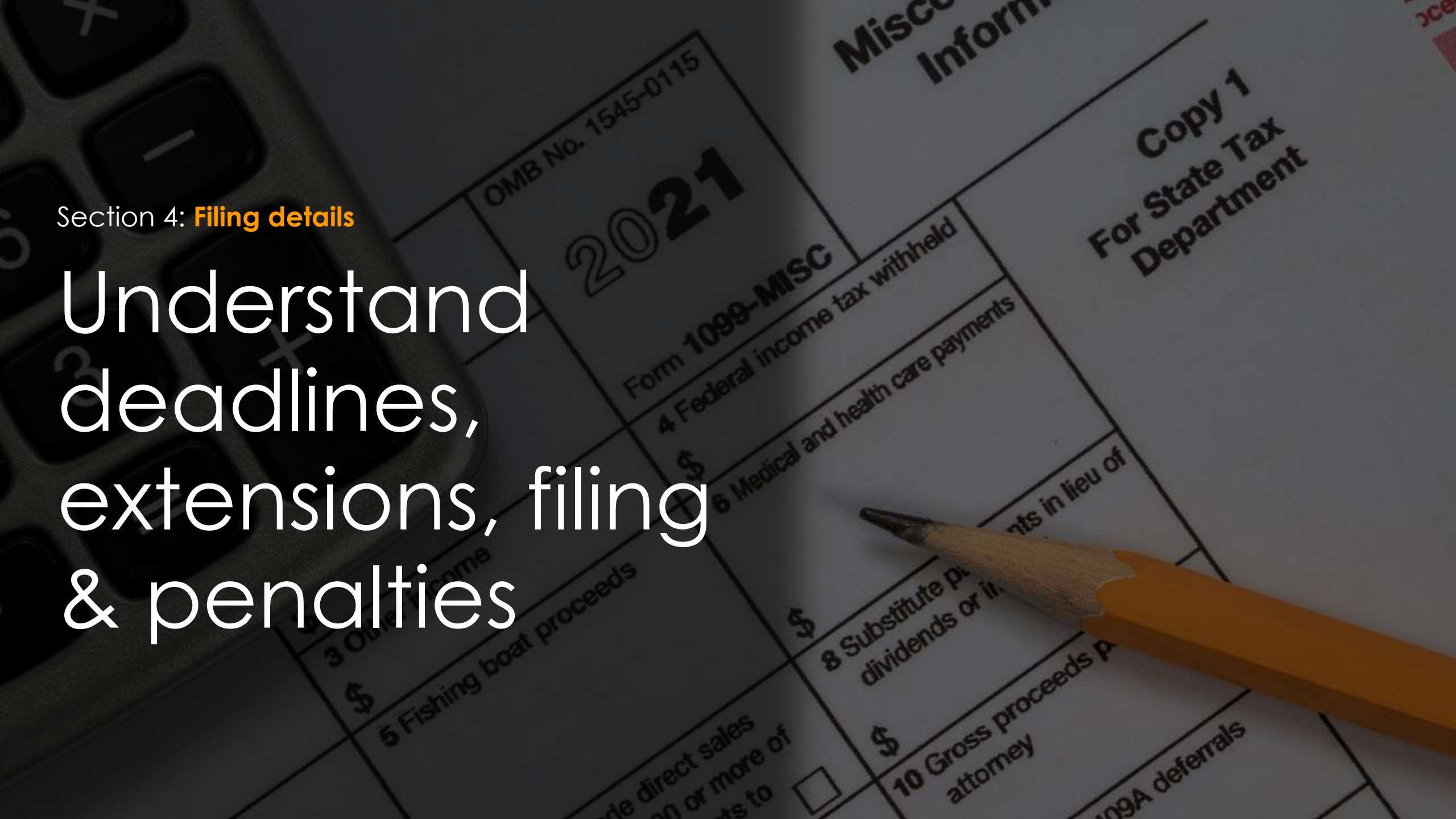
- To a foreign company
- For services provided INSIDE the United States



# **Polling question #3**

Section 4: **Filing details**

# Understand deadlines, extensions, filing & penalties



# Reporting deadlines

Form	Amounts to report	To recipient	To IRS (paper)	To IRS (electronic)
1099-NEC	\$600 or more	Jan. 31	Jan. 31	Jan. 31
1099-MISC <small>(Box 8 - Substitute dividends and tax-exempt interest payments reportable by brokers)</small>	\$10 or more	Feb. 15	Feb. 28	Mar. 31
1099-MISC <small>(Box 10 - Gross proceeds paid to an attorney)</small>	\$600 or more	Feb. 15	Feb. 28	Mar. 31
1099-MISC <small>(All others)</small>	\$600 or more	Jan. 31	Feb. 28	Mar. 31
1099-INT	\$10 or more <small>(\$600 or more in some cases)</small>	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





# Extensions

## Furnishing statements to recipients

- Letter to IRS by Jan. 31 (not automatic) -- FAX ONLY
- If granted, generally maximum 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

INTERNAL  
REVENUE  
SERVICE



# Penalties

These three things will get you in trouble.



**Failure to correct  
information returns by  
due date**

**Failure to furnish  
correct payee  
statements**

**Failure to file  
electronically**



# Penalties

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

<b>If correctly filed within</b>	<b>Per return</b>	<b>Maximum penalty</b>	<b>Small business maximum penalty</b>
30 days	\$50	\$571,000	\$199,500
By Aug. 1	\$110	\$1,713,000	\$571,000
After Aug. 1 or not filed at all	\$280	\$3,426,000	\$1,142,000
Intentional disregard	\$570	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: Failing to furnish correct payee statements

- Separate penalty
- Applied in same manner as “failure to file correct information by due date”
- Amount of penalty based upon when you furnish correct payee statement



# Penalties

#3 Failure: Failing to file electronically (if required)

- Up to **\$280 per return** for each return over 249
- Applies separately to original **and** corrected returns

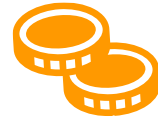




# Penalty exceptions



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



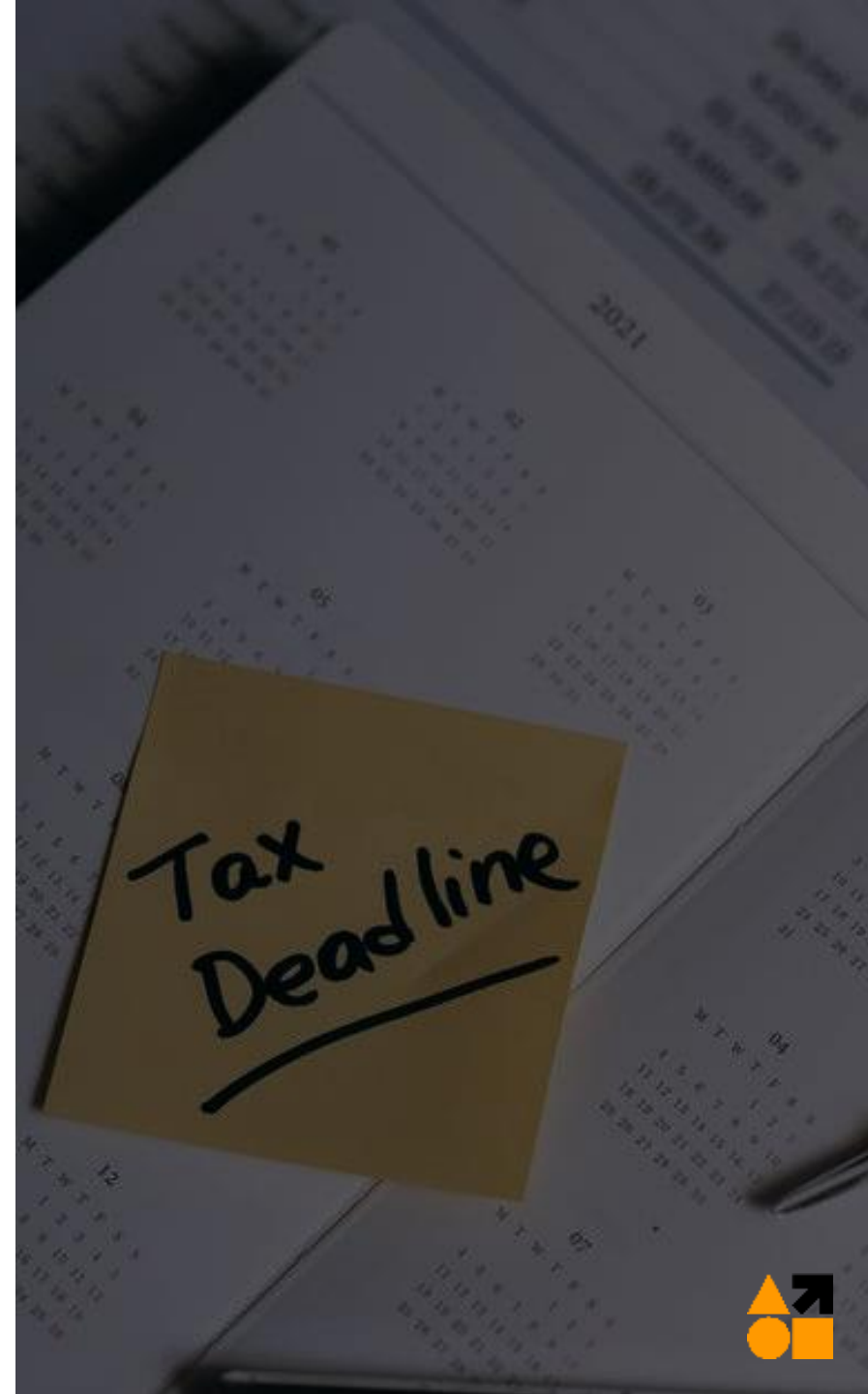
# IRS notices

- **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 & TIN combination (clerical error);  
Use the correct information in future 1099 filings
3. Incorrect name & TIN combination (no clerical error);  
Send “B” notices (backup withholding)



# IRS notices

- **IRS publication 1281**

Backup withholding for missing and incorrect name/TINs

- **IRS publication 1586**

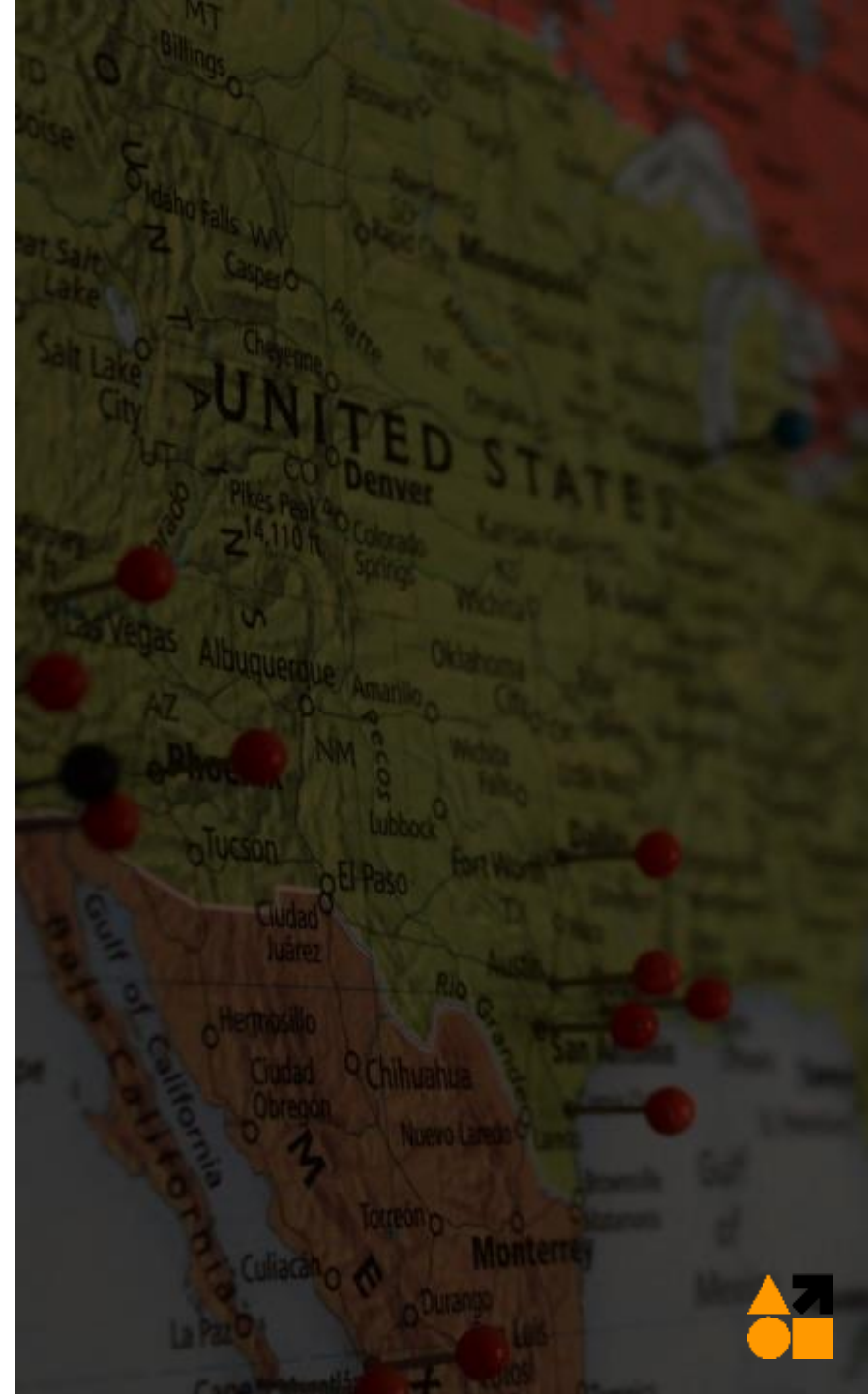
Reasonable cause regulations and requirements for missing and incorrect name/TINs



# What about states?

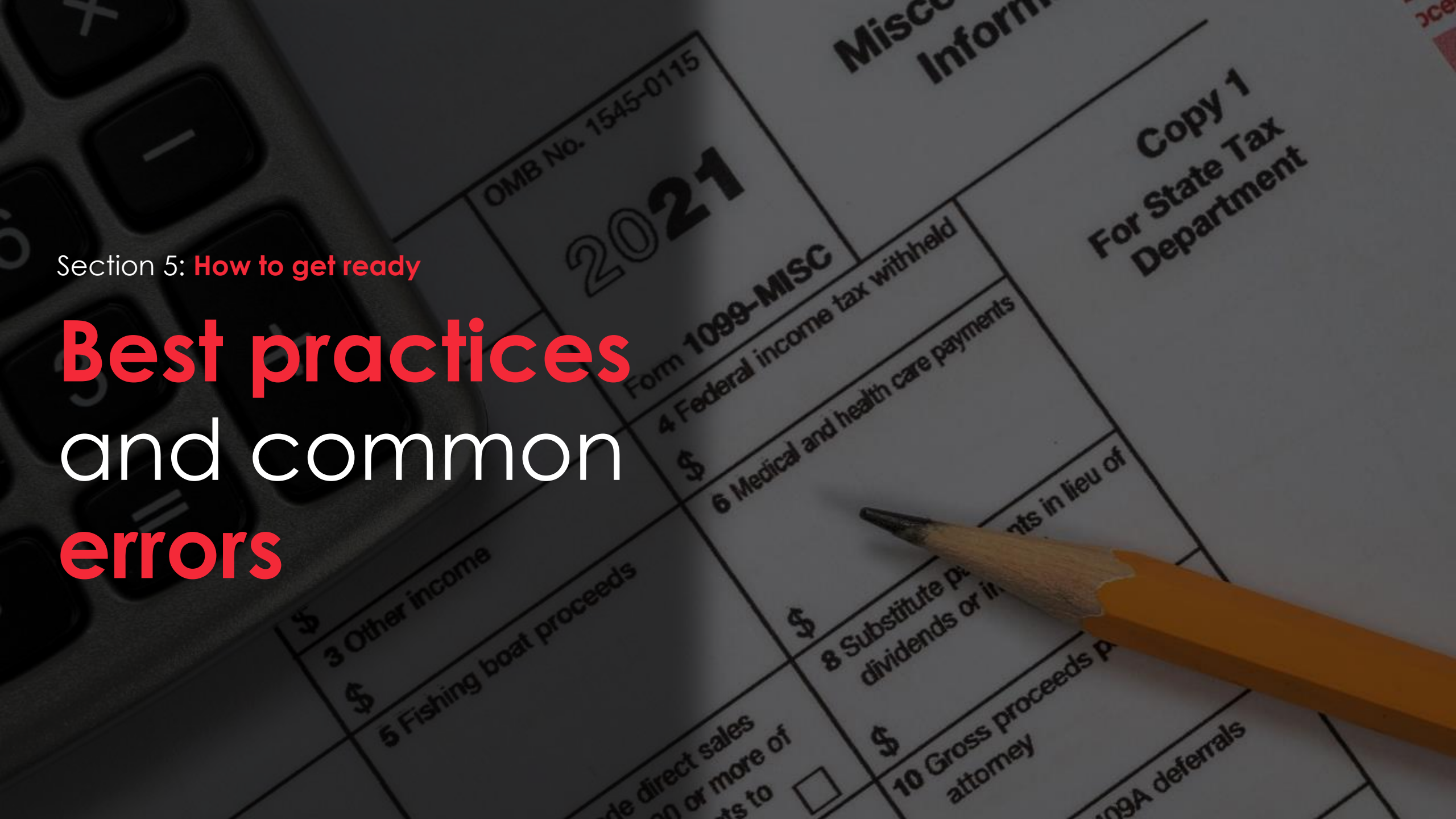
- **Combined Federal State Filing (CFSF)**

Research state-by-state requirements



Section 5: **How to get ready**

# Best practices and common errors



# How to prepare?

## Polices & Procedures

- Document in writing

## Accounting System

- Accounts payable
- Payroll

## Vendor Setup

- Form W-9s
- TIN matching





# 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**

► Go to [www.irs.gov/FormW9](http://www.irs.gov/FormW9) for instructions and the latest information.

Give Form to the requester. Do not send to the IRS.

**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.

Individual/sole proprietor or single-member LLC

C Corporation

S Corporation

Partnership

Trust/estate

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.

Other (see instructions) ► \_\_\_\_\_

**4** Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):

Exempt payee code (if any) \_\_\_\_\_

Exemption from FATCA reporting code (if any) \_\_\_\_\_

(Applies to accounts maintained outside the U.S.)

**5** Address (number, street, and apt. or suite no.) See instructions.

**6** City, state, and ZIP code

**7** List account number(s) here (optional)

**Requester's name and address (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**

\_\_\_\_ - \_\_\_\_\_

Print or type.  
See Specific Instructions on page 3.

Used to solicit information from vendors and independent contractors.



# 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

- 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

**Test filing**

Federal & state(s)

**Final filing**

Confirmations

**Corrections**

Recipients  
Regulatory agencies



# 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 off 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**

# 2021 IRS guidance

Instructions

## **Certain information returns - General instructions**

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

## **Form 1099-MISC & 1099-NEC**

<https://www.irs.gov/pub/irs-pdf/i1099msc.pdf>



# 2021 IRS guidance

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>



# 2021 IRS guidance

Publications

## **Pub. 1220: Specifications for electronic filing**

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

## **Pub. 1281: Backup withholding for missing and incorrect name/TINs**

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

## **Pub. 1586: Reasonable cause regulations & requirements for missing and incorrect name/TINs**

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



Thank you!



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