

1099 compliance in 2023: Prepare by year-end 2022

November 16 at noon CT

Continuing education credits available

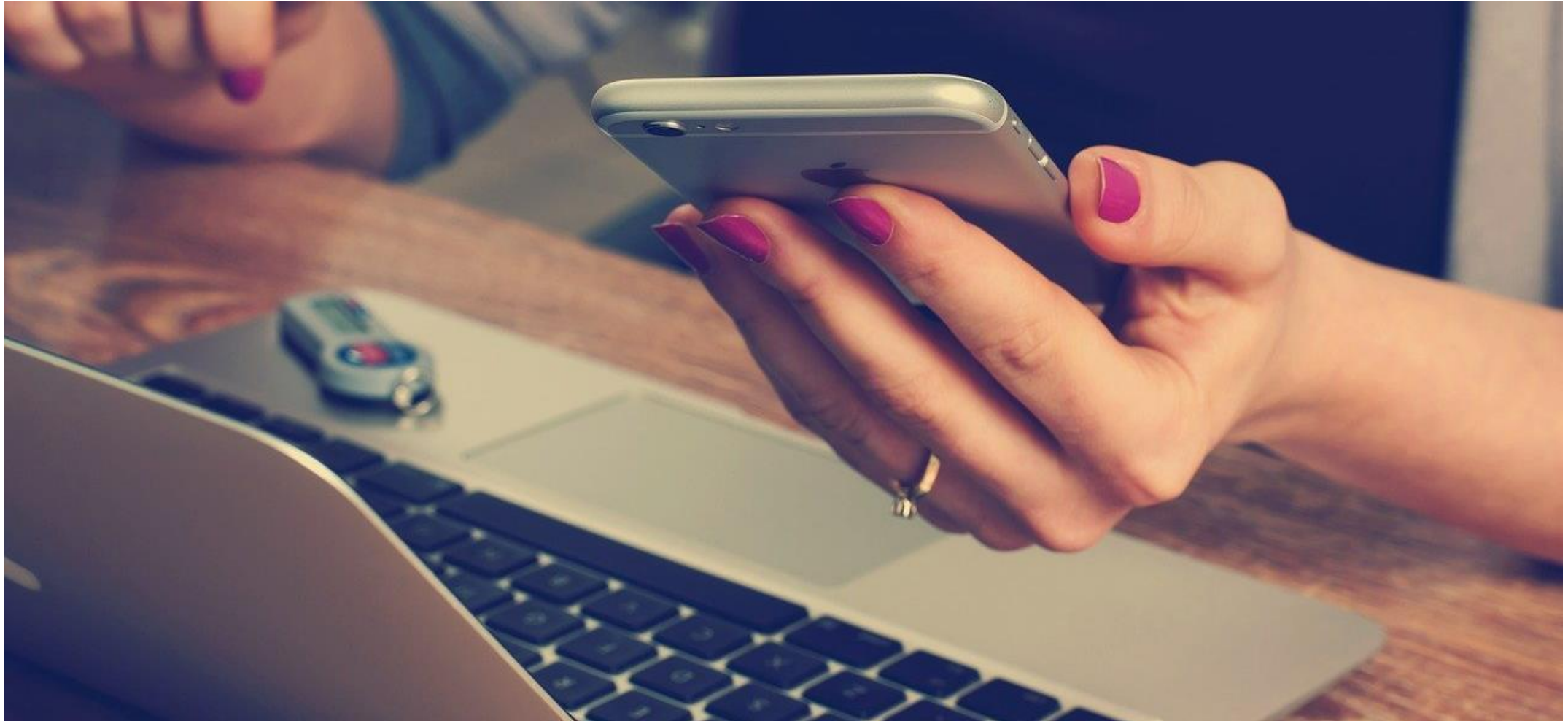
Please answer at least three polling questions.



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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Senior Vice President, Outsourcing Services

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?

No change yet on
electronic filing
thresholds

New electronic filing
portal

Form 1098-F

Continuous use forms



Section 1: The forms

Focusing on 1099-NEC & 1099-MISC

Form Section 409

Form 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-F	Fines, penalties, and other amounts
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 Form 1099-NEC (Rev. January 2022) For calendar year 20 ____	Nonemployee Compensation
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$	
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** (Rev. 1-2022) (keep for your records) 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

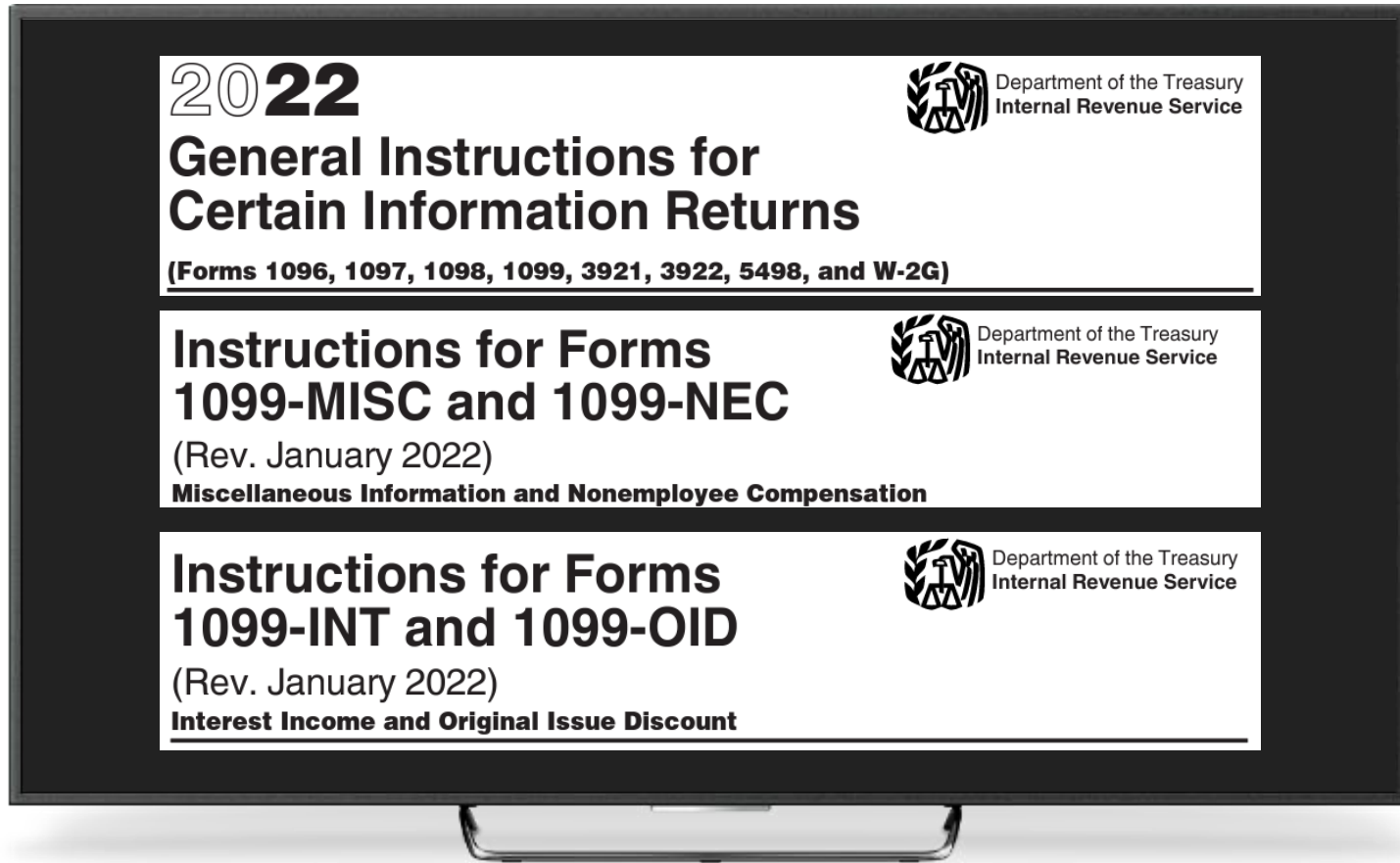
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	2 Royalties	3 Other income	4 Federal income tax withheld	Miscellaneous Information Copy B For Recipient This is important tax information and is being furnished to the IRS. If 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.
<input type="checkbox"/> CORRECTED (if checked)		\$	\$	\$	\$	
		PAYER'S TIN RECIPIENT'S TIN		5 Fishing boat proceeds	6 Medical and health care payments	
		RECIPIENT'S name		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest	
Street address (including apt. no.)		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney		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.	
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)		13 FATCA filing requirement <input type="checkbox"/>	14 Excess golden parachute payments	15 Nonqualified deferred compensation		
		16 State tax withheld	17 State/Payer's state no.	18 State income		
		\$		\$	\$	

Form **1099-MISC** (Rev. 1-2022) (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 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 2022.



What is new?

2022



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
		Aggregated direct sales of consumer goods for resale.	\$5,000 or more		

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**

15a Section 409

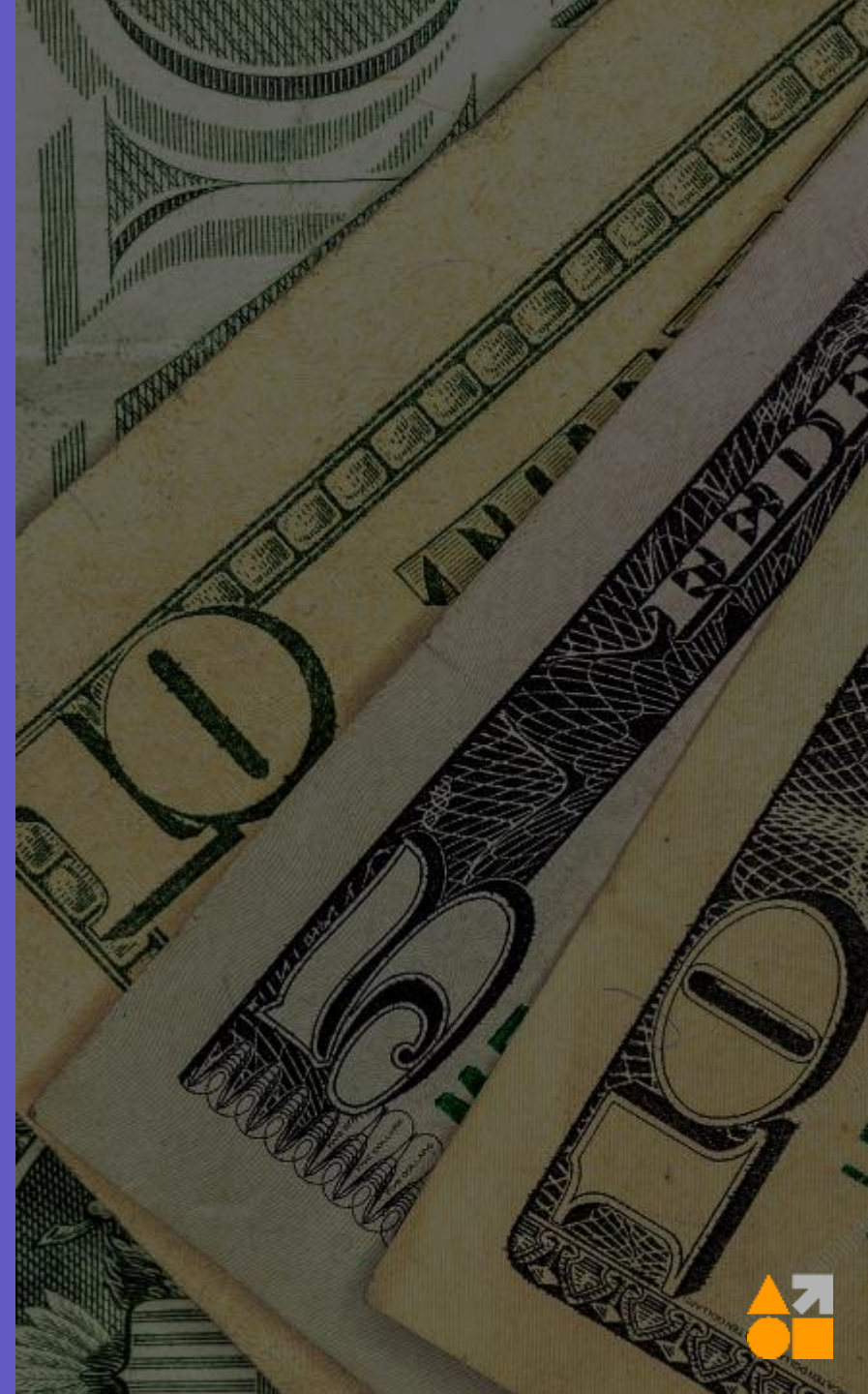
\$

Form 1099-MISC

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 15)
(this was Box 14 last year)

*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

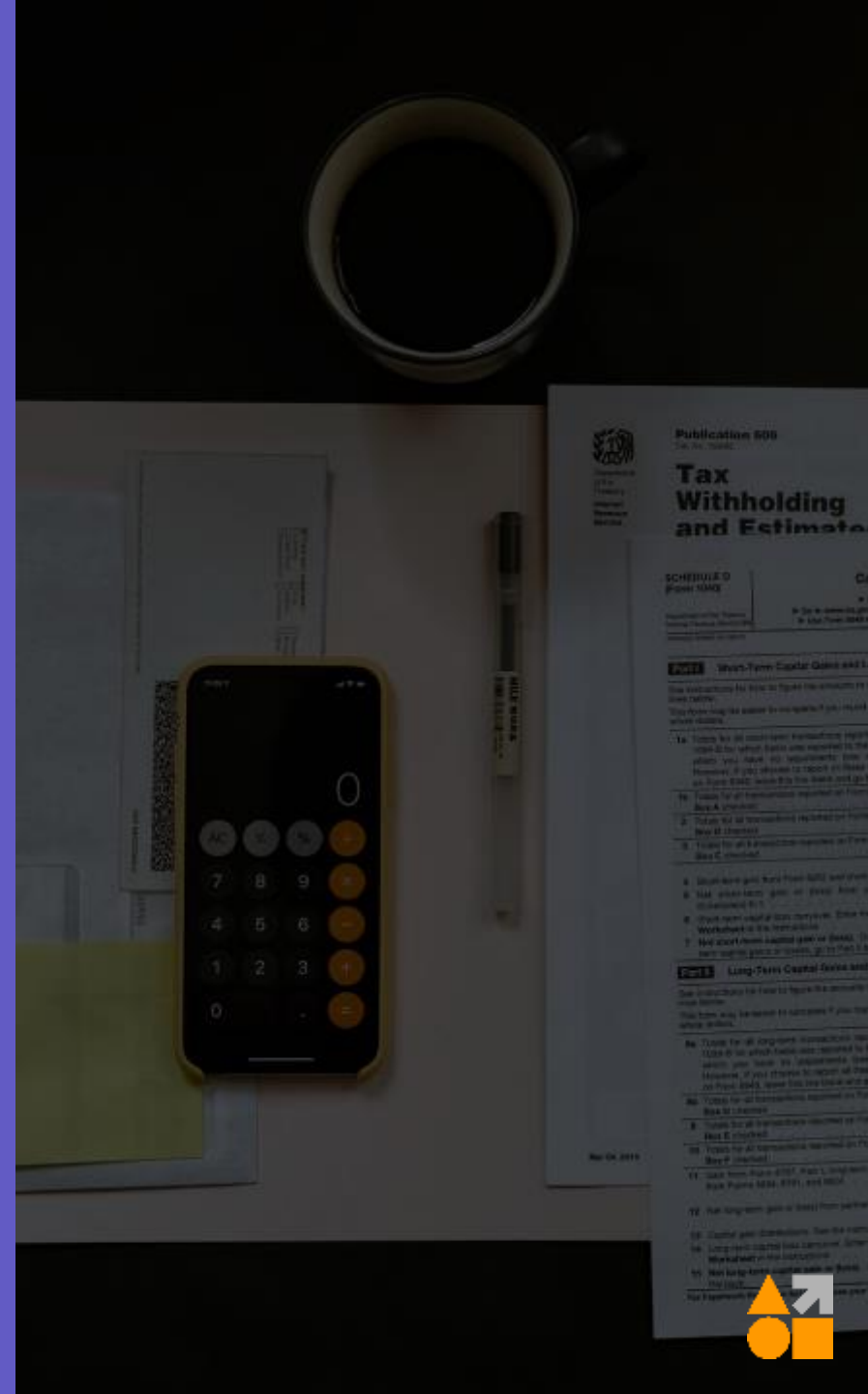
Deceased employee wages

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)

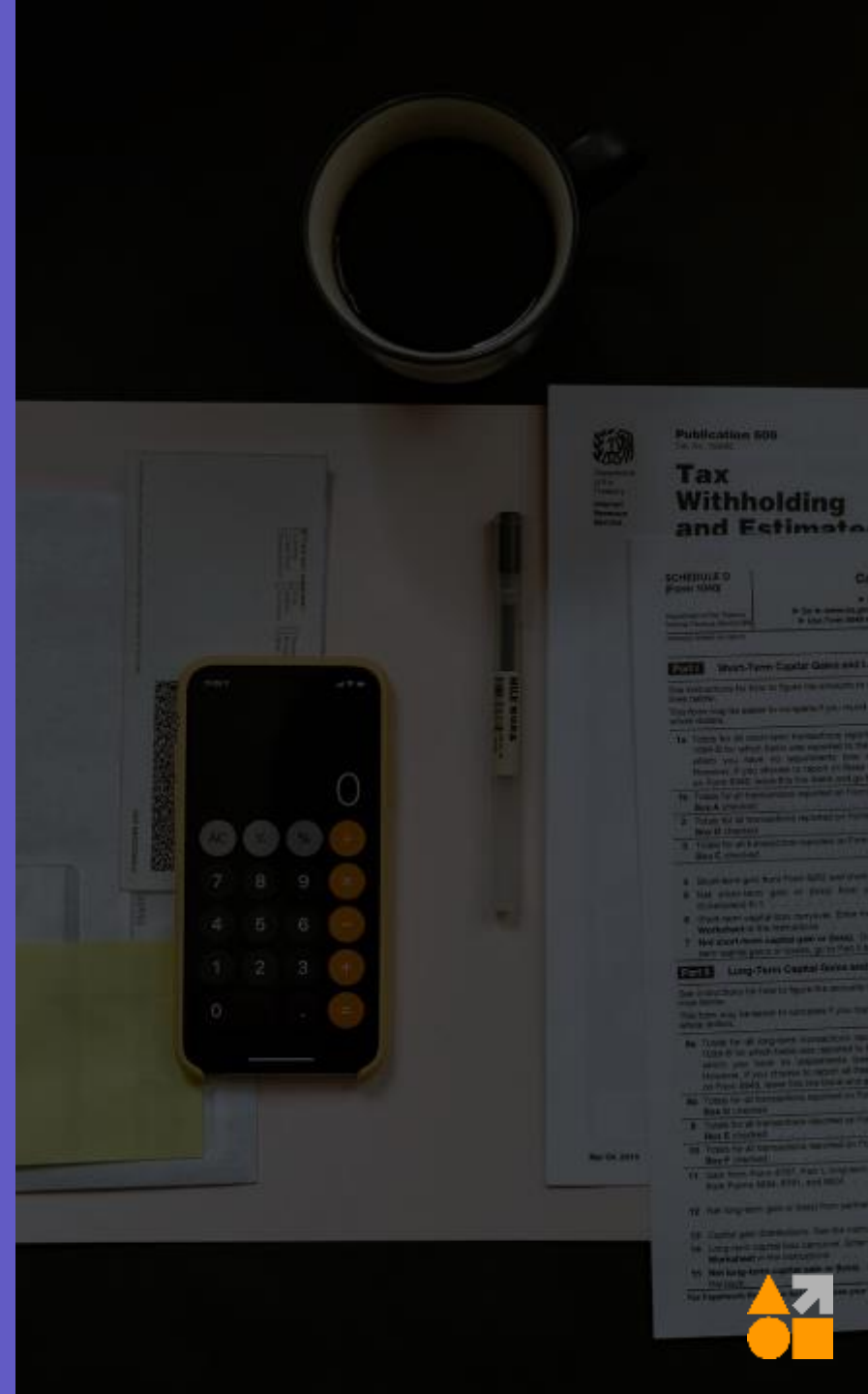


Other considerations

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**

Section 409
Form 1099-MISC

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 (Box 8 - Substitute dividends and tax-exempt interest payments reportable by brokers)	\$10 or more	Feb. 15	Feb. 28	Mar. 31
1099-MISC (Box 10 - Gross proceeds paid to an attorney)	\$600 or more	Feb. 15	Feb. 28	Mar. 31
1099-MISC (All others)	\$600 or more	Jan. 31	Feb. 28	Mar. 31
1099-INT	\$10 or more (\$600 or more in some cases)	Feb. 15	Feb. 28	Mar. 31
1099-DIV	\$10 or more; except \$600 or more for liquidations	Feb. 15	Feb. 28	Mar. 31
1099-R	\$10 or more	Feb. 15	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

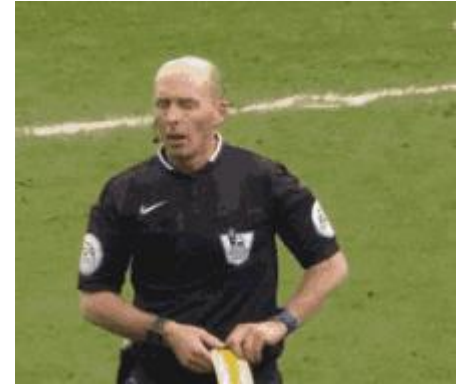
- Include Form 1096 transmittal form

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

If correctly filed within	Per return	Maximum penalty	Small business maximum penalty
30 days	\$50	\$588,500	\$206,000
By Aug. 1	\$110	\$1,766,000	\$588,500
After Aug. 1 or not filed at all	\$290	\$3,532,500	\$1,177,500
Intentional disregard	\$580	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)

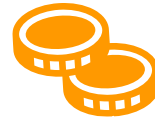
- Up to **\$290 per return** for each return over 249
- Applies separately to original **and** corrected returns



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



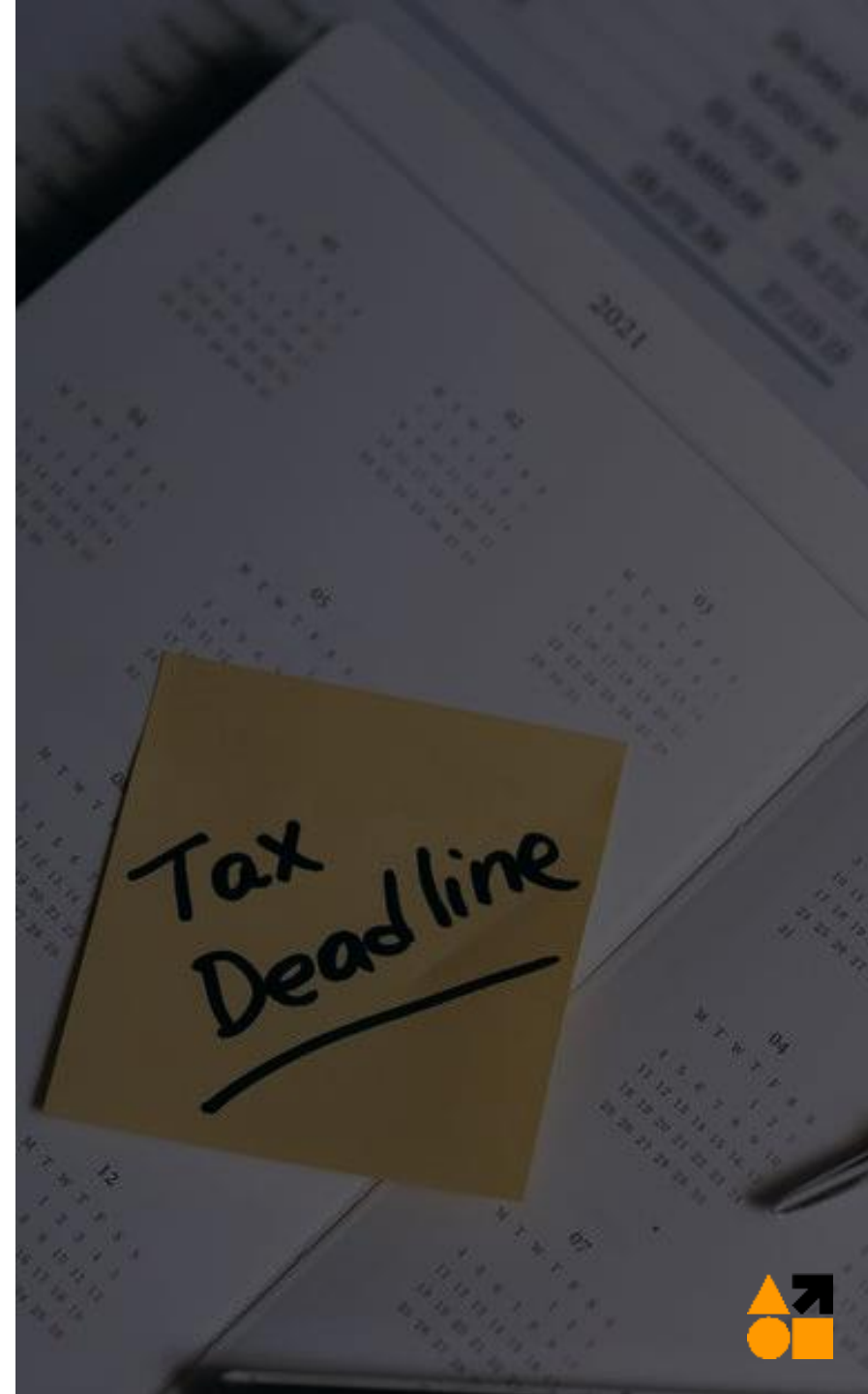
IRS notices

- **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**

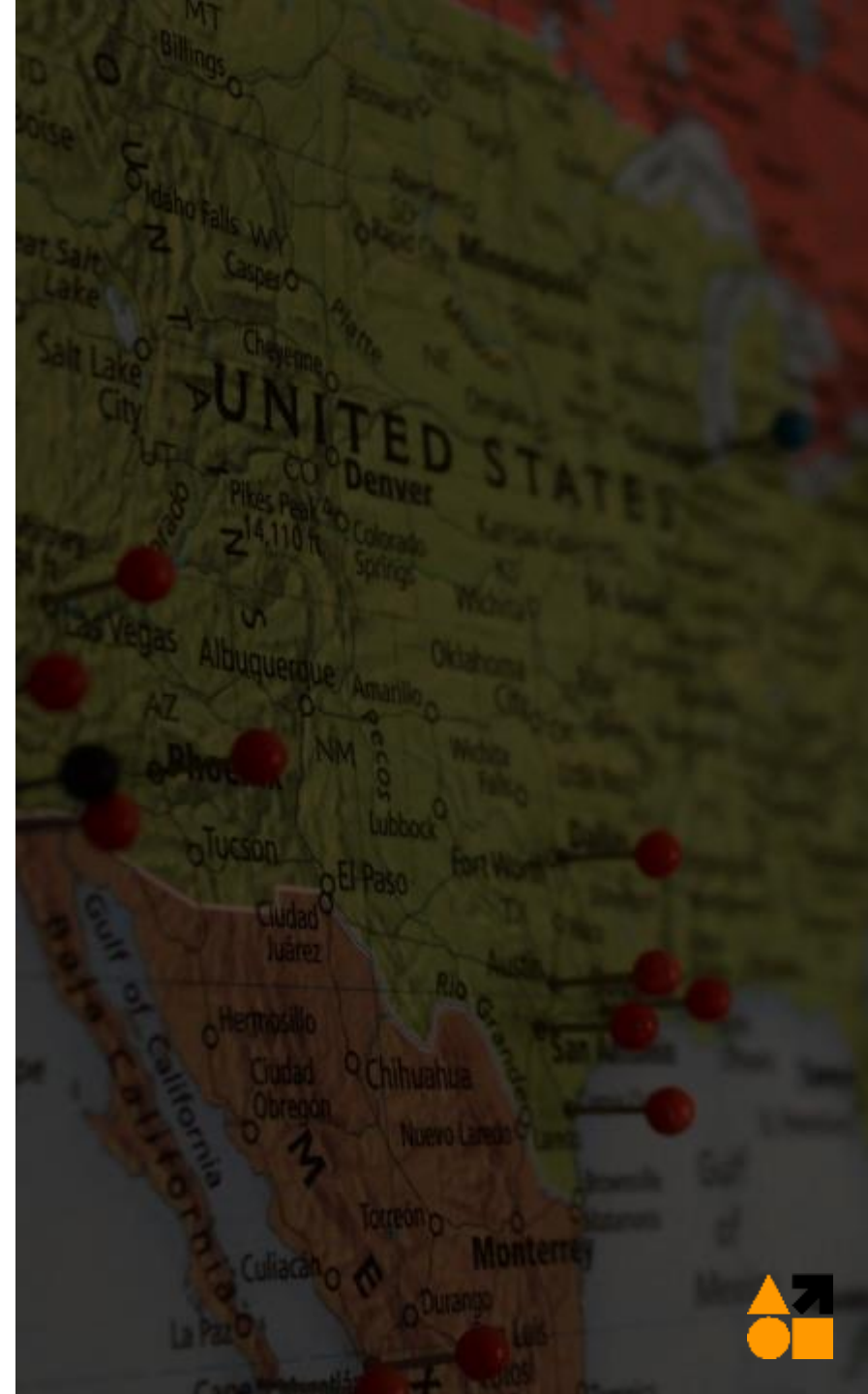
Reasonable cause regulations and requirements for missing and incorrect name/TINs



What about states?

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

Research state-by-state requirements



Section 5: **How to get ready**

Best practices and common **errors**

5a Section 409

\$

Form 1099-MISC

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 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

2022 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>



2022 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>



2022 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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