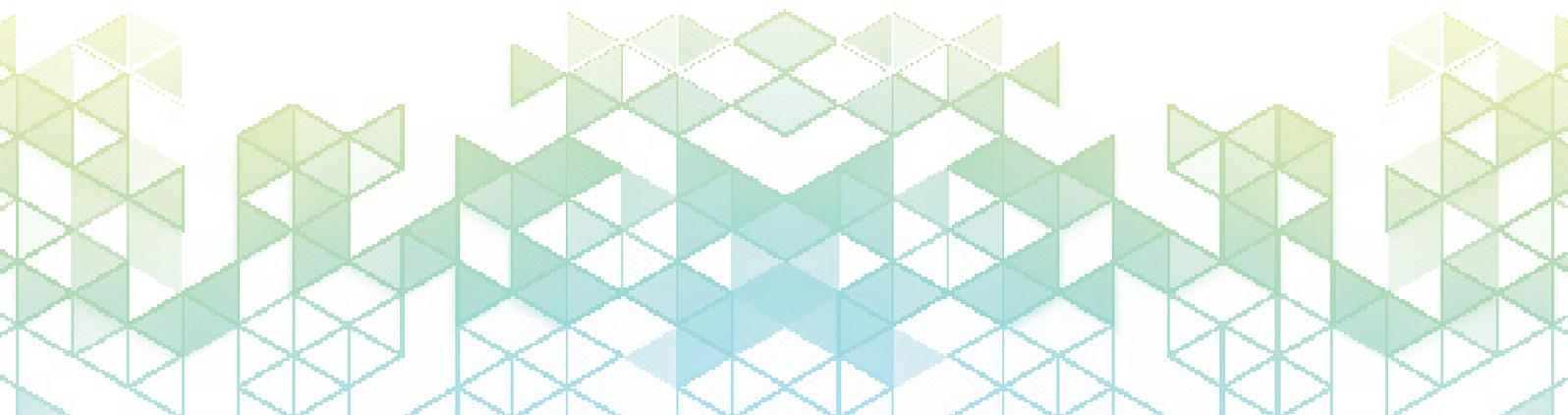




Johnson & Sheldon, PLLC
Certified Public Accountants



What you need to know about Form 1099-NEC vs. 1099-MISC



Prior to the tax year 2020, businesses had to report nonemployee compensation and miscellaneous income on the IRS Form 1099-MISC. However, for the tax year 2020 and forward, the IRS introduced Form 1099-NEC for reporting nonemployee compensation. This document provides an overview of Form 1099-NEC and when to use that form versus the 1099-MISC.

Historically, the IRS Form 1099-MISC was used to report both nonemployee compensation and miscellaneous income. If the form contained nonemployee compensation, then it was due by January 31st. Otherwise, if it did not contain nonemployee compensation, then the form was due by February 28th. This caused confusion among taxpayers, so the IRS decided to split reporting across two forms - the 1099-NEC and 1099-MISC.

Form 1099-NEC

Businesses will need to use Form 1099-NEC if they made payments totaling \$600 or more to a non-employee, such as an independent contractor, freelancer, vendor, consultant, or other self-employed individual.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0116		2020 Form 1099-NEC	Nonemployee Compensation
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.					
		1 Nonemployee compensation		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.	
		\$			
PAYER'S TIN	RECIPIENT'S TIN	2			
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 <input type="checkbox"/>			
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	

According to the IRS, businesses must report payments on Form 1099-NEC if the payments meet the following four conditions:

- The payment is made to someone who is not your employee.
- The payment is made for services in the course of your trade or business.
- The payment was made to an individual, partnership, estate, or, in some cases, a corporation.
- The payments to the nonemployee totaled \$600 or more for the calendar year.

Additionally, businesses must file Form 1099-NEC for each person from whom they have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

For reporting, nonemployee compensation can include fees, commissions, prizes, awards, and other forms of compensation for services performed as a nonemployee for the business. Nonemployee compensation should not include personal payments or employee wages.

Form 1099-MISC

Businesses should use the Form 1099-MISC for each person in the course of their business to whom they have paid the following during the year:

At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest, or

At least \$600 in:

- Rents except if paid to a real estate agent or property manager.
- Prizes and awards.
- Other income payments.
- Generally, the cash paid from a notional principal contract to an individual, partnership, or estate.
- Any fishing boat proceeds.
- Medical and health care payments.
- Crop insurance proceeds.
- Payments to an attorney.
- Section 409A deferrals.
- Nonqualified deferred compensation.



<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				Miscellaneous Income	
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 2020	Form 1099-MISC	
		2 Royalties \$			
PAYER'S TIN RECIPIENT'S TIN		3 Other income \$	4 Federal income tax withheld \$	Copy 1 For State Tax Department	
		5 Fishing boat proceeds \$	6 Medical and health care payments \$		
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 \$		
Account number (see instructions) FATCA filing requirement <input type="checkbox"/>		11	12 Section 409A deferrals \$		
		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** www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Additionally, businesses must file Form 1099-MISC for each person from whom they have withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

Special Notes

Now that nonemployee compensation and miscellaneous compensation are split into two forms, a business may end up submitting both forms for the same vendor.

Payments to attorneys may require both forms. Gross proceeds paid to an attorney, such as services related to a specific litigation matter should be reported on Form 1099-MISC whereas attorneys' fees, such as for general business matters, should be reported on Form 1099-NEC. Please note that the reporting exemption for corporations does not apply to legal fees, so even if your law firm is a corporation, you still must report the payments.



Payments made with a credit card or payment card or certain other types of payments, including third-party network transactions, are not subject to reporting those payments on Form 1099-NEC or 1099-MISC. Those payments are reported on Form 1099-K by the payment settlement entity.

Be sure to collect a W-9 from your vendors in order to obtain their information including the Taxpayer Identification Number to ensure the accuracy of your 1099 reporting. The IRS can assess penalties for erroneous submissions, and considering that some vendors may require both forms, one error may be flagged twice.



Final Thoughts

The information in this document is meant to provide an overview of Form 1099-NEC and 1099-MISC. There are of course many details not covered. If you need help with your 1099 filing or would simply like to discuss your specific situation, please contact our office.



About Johnson & Sheldon, PLLC

Johnson & Sheldon, PLLC is professional corporation that has established itself as one of the leading, aggressive accounting and consulting firms in the Panhandle Region of Texas. Our clients have been relying on the experience and guidance of our partners, Terry Sheldon , Richard Blankenship and Jeff Joyce for over 30 years. Located in Amarillo, Johnson & Sheldon's client base consists of small to medium size mostly privately-owned business and organizations. J&S is a member of the RSM US Alliance, the nation's fastest growing association of independent accounting firms. Through our affiliation with this network, Johnson & Sheldon, PLLC can offer the pooled expertise and resources of the RSM US Alliance, as well as other network members.



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