

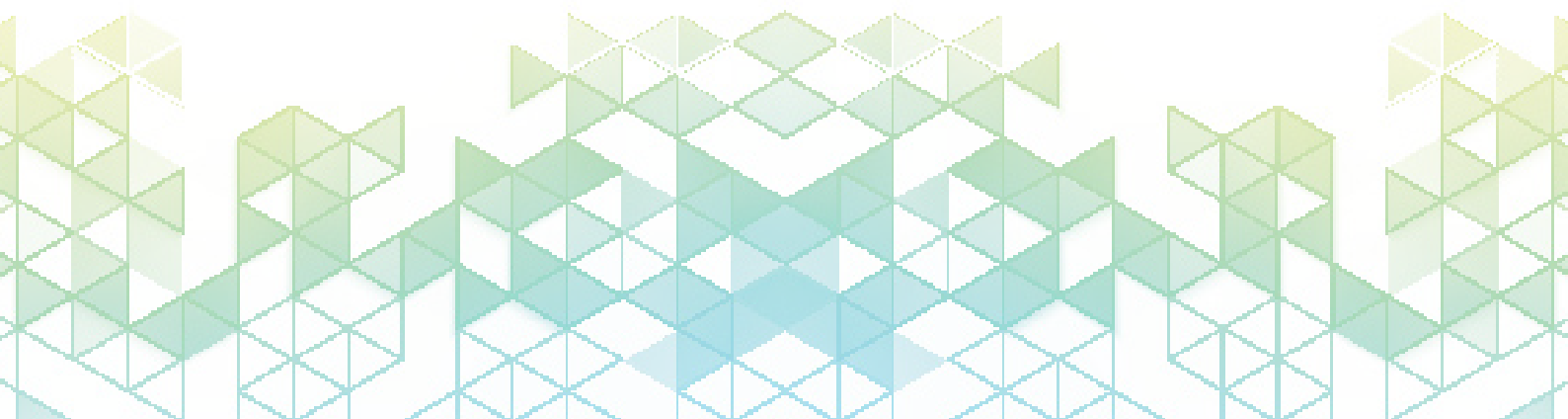


**CAIN ELLSWORTH
& COMPANY, LLP**

Beyond the Numbers...



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.

☐ 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 ☐					
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.



☐ VOID ☐ CORRECTED		OMB No. 1545-0115		Miscellaneous Income
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	2020	
		2 Royalties		
		3 Other income	4 Federal income tax withheld	
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds	6 Medical and health care payments	Copy 1 For State Tax Department
RECIPIENT'S name		7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ☐	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	
City or town, state or province, country, and ZIP or foreign postal code		11	12 Section 409A deferrals	
Account number (see instructions)	FATCA filing requirement ☐	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.



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Cain Ellsworth is not all things to all people. Instead, we specialize in serving small to medium businesses in banking, manufacturing, property and casualty insurance, plus a variety of other industries. And we dedicate significant resources to assure that we are well-informed in each of them.



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