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CERTIFIED PUBLIC ACCOUNTANTS



Streamline 1099 Reporting: Tips For a Smooth Filing Season



Issuing 1099s might not be the most exciting part of running a business, but waiting until the eleventh hour can create unnecessary headaches. Whether you're dealing with independent contractors, paying rent on a business property, or using third-party payment processors like PayPal, it's crucial to understand which types of 1099s you need to send and when.

By clarifying these rules and streamlining your processes, you'll save time and minimize your risk of costly penalties.

Ensure the right vendors receive the appropriate forms

There are several types of 1099s, but business owners usually wrestle with the same three: the 1099-NEC, the 1099-MISC, and the 1099-K. Knowing when to use each one is the first step toward a smooth filing process.

Form 1099-NEC: Non-employee compensation

If you paid \$600 or more to an individual for services and they aren't your employee, you likely owe them a 1099-NEC. This typically applies to independent contractors and freelance professionals who provide services for your business but aren't on your payroll.

If the service provider operates under a formal business structure, the rules can get a bit more complicated. For instance, if they're a C or S-corporation, you generally don't need to issue a 1099-NEC. But there are a few exceptions, such as when you're paying for legal services. In that case, you may need to send a 1099-NEC even if the law firm is a corporation.



If you paid an LLC more than \$600, you'll need to check the W-9 form they provided to see how their LLC is taxed. If the LLC is taxed as a sole proprietorship or a partnership, issue the 1099-NEC if the payment threshold is met. If the LLC is taxed as a C or S-corporation, you usually don't issue a 1099-NEC unless an exception applies. The IRS provides a list of exceptions, though most of them are unlikely to come up in everyday situations.

Deadlines

For tax year 2024, you'll need to provide copies of 1099-NECs to your vendors and the IRS by January 31, 2025.

Form 1099-MISC: Miscellaneous income

[Form 1099-MISC](#) applies to a range of other payments made in the course of your trade or business that don't fall under non-employee compensation. This includes payments for rent if you paid \$600 or more for office space, equipment, or land rentals. It also covers royalty payments if you paid \$10 or more in royalty income. Additionally, the form applies to other income, including prizes, awards, taxable damages, and certain other payments that don't fit the non-employee compensation category.

The rules for business entities are generally the same for miscellaneous income as they are for non-employee compensation. Usually, you don't issue a 1099-MISC to a C or S-corporation, but you'll have to provide one for LLCs taxed as sole proprietors or partnerships if they meet the payment threshold.

One important exception involves medical and healthcare services. If you paid \$600 or more for medical services such as employee drug screening, you must issue a 1099-MISC regardless of the provider's business structure. In other words, even if the provider is a C-corporation, they should receive a 1099-MISC for these services if the \$600 threshold is met.

Deadlines

All 1099-MISC forms must reach their recipients by January 31st. You must also file the forms with the IRS by February 28th if you're submitting paper forms, or March 31st if you're filing electronically.



Form 1099-K: third-party payment transactions

If you pay vendors via a third-party payment platform like PayPal or Venmo, you typically won't issue a 1099-NEC or 1099-MISC for those amounts. The payment processor is responsible for sending the 1099-K to the vendor. This prevents double-reporting the same income.

Verify accuracy and make necessary updates

A smooth 1099 filing season starts long before January. Collecting and reviewing W-9 forms throughout the year helps you confirm each vendor's tax classification, reducing guesswork when it's time to issue 1099s. If you haven't been diligent about this, begin now. Request missing W-9s and ensure that the information you have on file is current.

A quick email to each vendor, verifying that the information you have is up to date, can help you stay ahead of any issues. If a vendor moved offices, changed their business structure, or updated their Tax Identification Number, confirm that your records reflect these details. By staying organized and proactive, you'll spend less time stressing about 1099s and more time running your business.

Prepare for a smoother tax season

Don't wait until the last minute to put these steps into action. By reviewing your vendor list now, confirming tax classifications, and clarifying which forms apply, you're setting yourself up for a more efficient filing process.



Next Step

Remember, this is just a brief overview, and there may be nuances or rare exceptions that haven't been covered here. If something seems unclear or if you'd like a professional opinion, don't hesitate to reach out to our office. Taking the time now to get clarity - and maybe even refine some processes - can make all the difference when tax deadlines roll around.



About us

At Raven A. Herron & Company we perform many different types of accounting and tax services to meet the needs of both individuals and business owners. We understand the importance of having a well organized, knowledgeable team guide you through the ever-changing economic landscape.

Our team of professionals have become known for providing expert analysis and excellent customer service. Additionally, our service offerings are supported by the industry's latest technologies, providing more customized services and giving you greater access to the pertinent financial information you need to make well-informed decisions.

Contact Raven A. Herron & Company whenever you find you need more than just an accountant, but a partner who takes pride in watching you succeed.



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