

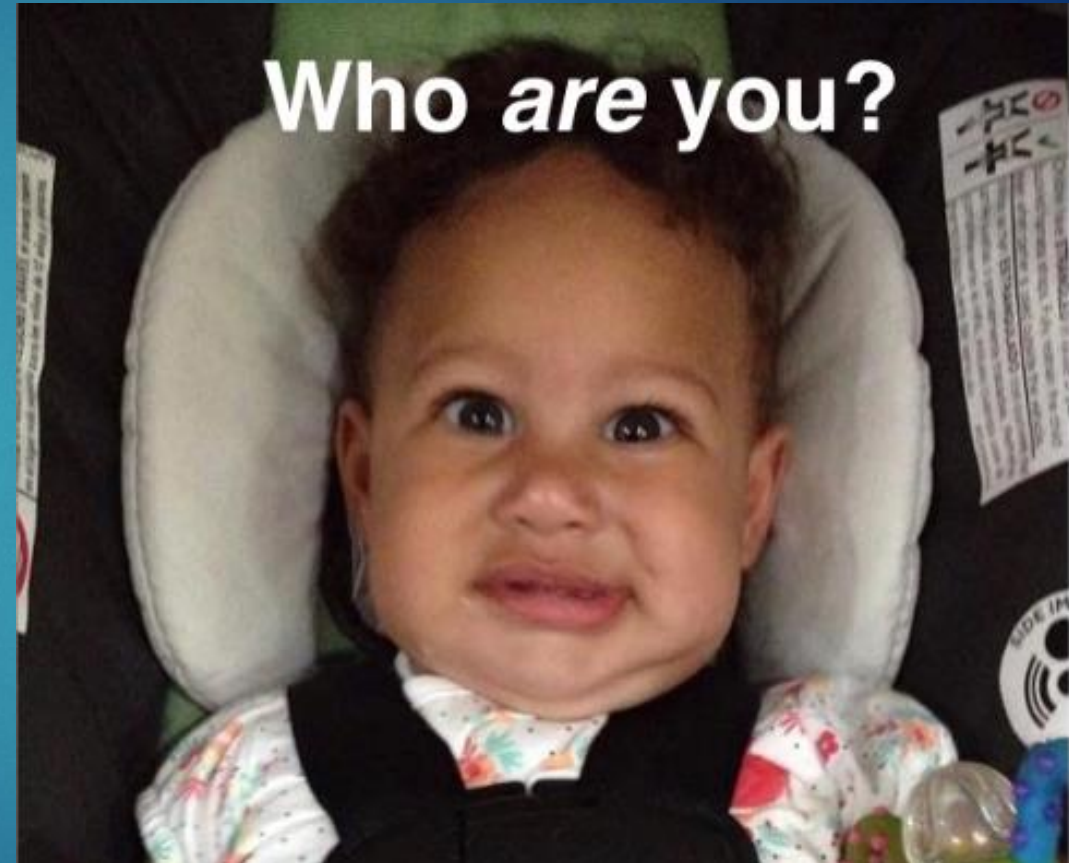
1099s

2023 County Auditors Institute
Hilton College Station & Conference Center

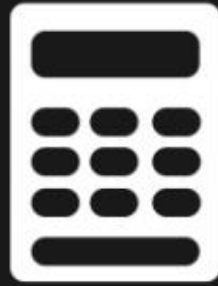
Background

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I GOT
1099 PROBLEMS



BUT MATH AIN'T ONE
#ACCOUNTANTLIFE

1099 vs W-2

Common Law Rules: Facts that provide evidence of the degree of control and independence fall into three categories:

- ▶ **Behavioral Control:** Does the company control or have the right to control what the worker does and how the worker does his or her job?
- ▶ **Financial Control:** Are the business aspects of the worker's job controlled by the payer?
- ▶ **Relationship of the Parties:** Are there written contracts or employee type agreements? Will the relationship continue and is the work performed a key aspect of the business?

Source: www.irs.gov Independent Contractor (Self-Employed) or Employee?

You should classify workers as employees if they:	Workers are most likely independent contractors if they:
<ul style="list-style-type: none">✓ Are paid by the week or month✓ Get training and day-to-day supervision✓ Work full time on a regular basis✓ Perform most of their job tasks on the premises✓ Can be fired at any time (rather than falling under contractual terms)✓ Provide services that are an essential part of your normal operations	<ul style="list-style-type: none">✓ Use their own equipment to perform the job✓ Work on a temporary basis and are paid "per project"✓ Service other clients, often at the same time✓ Work under an individual business license✓ Work at an offsite location (occasional meetings at your business location are OK)✓ Have flexibility to set their own hours and schedule

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Form W-9

- ▶ Helps identify payee.
- ▶ Helps to determine if payee is reportable.
- ▶ Certifies under the penalty of perjury that:
 - ▶ The information input is accurate.
 - ▶ The payee is not subject to back-up withholding.
 - ▶ The individual signing is a U.S citizen or person.
 - ▶ The Foreign Account Tax Compliance Act (FATCA) code(s) entered (if any) indicate you are exempt from FATCA reporting.
- ▶ Do not expire and are valid unless something changes
- ▶ Failure to obtain could lead to a back-up withholding of 24%.
- ▶ Substitute Form W-9 is possible but must meet IRS specification.
- ▶ Generally, must keep Form W-9 for 3 years (recommended 7 years) after the last reporting year payment.

“Eyeball Test”

- ▶ Exempts Form W-9 for specific payees.
- ▶ The name must unquestionably identify the payee as non-reportable.
- ▶ Must determine the payee is a U.S. based entity.
- ▶ Recommended to still obtain a W-9.
- ▶ Examples: Government entities, public schools, churches.

E-Services IRS Verification

- ▶ Allows organizations to verify their payee's taxing name and tax identification number (TIN) combination.
- ▶ Returns results that either match IRS records or identifies issues with the information that was input.
- ▶ Completed based on what is input by payee on Form W-9.
- ▶ Very extensive vetting process to obtain a login to the system.

Payee Setup

- ▶ Input vendor information into your Accounts Payable system.
- ▶ Setup as reportable or non-reportable
- ▶ If reportable, determine what 1099 they would be receiving.
- ▶ Identify 1099 address, if applicable.
- ▶ Save Form W-9 and additional vendor forms, under vendor profile.

What is 1099 Reportable?

- ▶ Factors:
 - What is on the W-9?
 - Why are you paying your vendor?
 - How much are you paying the vendor for a calendar year?
- ▶ Assume the payment is reportable, unless you have specific reasons why they would not be reported (ex: purchase of goods only)
- ▶ Assume payee is reportable, unless they provide you documents showing otherwise or pass the eyeball test.
- ▶ When in doubt, report the payment/vendor. Reportable does not *always* mean taxable.



Examples of 1099 Reportable Payments

- ▶ All rent payments and temporary easements with terms less than 30 years: **1099-MISC, Box 1**
- ▶ Deceased employee's final "gross pay" amount on the check made to the estate or acceptable beneficiary: **Misc-1099, Box 3**
- ▶ All medical providers, counseling, psychologist, health care payments, expert witnesses for medical professionals (IRS Chief Counsel Advice letter 003470 has more info), and veterinarian services regardless of what the W-9 indicates – **1099-Misc, Box 6**
- ▶ All appointed attorney payments regardless of what the W-9 indicates : **1099-NEC; Box 1**
- ▶ Gross proceeds paid to an attorney: **Misc-1099, Box 3**
- ▶ Membership dues: **1099-NEC; Box 1**
- ▶ Printing services : **1099-NEC; Box 1**
- ▶ Commissary fund payments, depending on type of purchase.

What is not 1099 reportable?

- ▶ Goods (no services included)
- ▶ Supplies
- ▶ Refunds
- ▶ Expense reimbursements (except day meals not involving rest)
- ▶ Telecommunication Services
- ▶ Transactions completed on a County P-Card or single use cards (reported by credit card merchant)
- ▶ Relocation costs associated with eminent domain
- ▶ Child welfare payments (when housing under 10 children)
- ▶ Extradition
- ▶ Restitution payments
- ▶ Prescriptions drugs
- ▶ Freight/Shipping

Types of 1099

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▶ 1099-MISC

- ▶ Payment Types: miscellaneous income
- ▶ Amounts to report: \$600 or more per year
- ▶ Due to Recipient: January 31
- ▶ Due to IRS: February 28 (paper); March 31 (electronic)
- ▶ Examples: rent, medical services, lawsuit settlements, royalties

▶ 1099-NEC

- ▶ Payment Types: non-employee compensation
- ▶ Amounts to report: \$600 or more per year
- ▶ Due to Recipient: January 31
- ▶ Due to IRS: January 31
- ▶ Examples: most general services

Types of 1099 (continued)

▶ 1099-S

- ▶ Payment Types: gross proceeds from real estate transactions
- ▶ Amounts to report: \$600 or more per year
- ▶ Due to Recipient: February 15
- ▶ Due to IRS: February 28 (paper); March 31 (electronic)
- ▶ Example: land purchased directly from individuals

▶ 1099-INT

- ▶ Amounts to report: \$10 or more per year
- ▶ Due to Recipient: January 31
- ▶ Due to IRS: February 28 (paper); March 31 (electronic)
- ▶ Example: interest accrued on county invested funds held by courts

Source: <https://www.irs.gov/businesses/small-businesses-self-employed/a-guide-to-information-returns>

Reporting to the IRS

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ELECTRONIC FILING

- Can use IRS FIRE (filing information return electronically) system.
- Information Returns Intake System (IRIS) became available in January 2023. New system allows filing via CSV template and is available for all 1099 types.
- Required if filing 250 or more.
- Proposed legislation to make it mandatory to issue electronically filed corrections, if reported to IRS in that manner.

PAPER FILING

- ▶ Use Form 1096 to report summary of 1099 information being submitted.
- ▶ Include Copy A of each 1099 form.
- ▶ Format must meet requirements, per instructions on the form.
- ▶ Mailed to IRS.
- ▶ Can only be used when filing less than 250 returns.

1099 Follow-ups

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- ▶ Returned 1099s
- ▶ 1099 Corrections
- ▶ B-Notice



Best Practices

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- ▶ Obtain Form W-9, prior to making payment.
- ▶ Keep your vendor file current.
- ▶ IRS TIN matching before payment and submission to the IRS.
- ▶ When in doubt, report payee/payment.
- ▶ Start early and plan for issues.
- ▶ Use your resources.



1099 Resources

- ▶ IRS Website: <https://www.irs.gov/>
- ▶ Master Guide to Form 1099 Compliance
- ▶ Institute of Finance & Management membership
- ▶ External Auditor Firm with tax specialists
- ▶ Contact us!

Questions?