

What changes in 2020 with the new Form 1099-NEC?

Form 1099-NEC

The IRS has released the 2020 Form 1099-NEC to report nonemployee payments. This move affects almost all businesses within the U.S. who need to report nonemployee compensation. Up until now, Form 1099-MISC (box 7) was used to report nonemployee compensation. But starting in the 2020 tax year (to be filed in 2021), businesses will need to use form 1099-NEC to report non-employee compensation.

What is non-employee compensation?

Non-employee compensation is the payment(s) a business makes to non-employee. For 1099-NEC, non-employee payments are reported only if:

- It is paid to someone who is not an employee.
- It is made for services in the course of your trade or business. Personal payments are not reportable.
- It is made to an individual, partnership, estate, or corporation in some cases.
- The payment is at least \$600 for the calendar year.

Some examples of payments you must report on Form 1099-NEC in Box 1 are:

- Payments to independent contractors or fees paid to nonemployee.
- Profession service fees paid to professional service providers, such as attorneys and accountants.

- Commissions paid to nonemployee salespersons not repaid during the year.
- Sales of fish if you are in the trade or business of catching fish.
- Taxable fringe benefits for nonemployees.
- Director's fees.

Some examples of payments not to be reported on Form 1099-NEC are:

- An employee's wages, travel or auto allowance, or bonuses and prizes.
- Expense reimbursement paid to volunteers of nonprofit organizations.
- Deceased employee wages paid in the year after death.
- Payments such as rent, royalties, other income not subject to self-employment tax, interest, etc.

Important notes for 1099-NEC

Due Dates:

Businesses are required to furnish form 1099-NEC to the payees (recipients) and file with the IRS by January 31 (February 1, 2021, as January 31 falls on a Sunday).

State Reporting:

Form 1099-NEC is not a part of forms supported in the Combined Federal/State Filing Program. We are continually looking for new guidelines on state filing requirements. If your state has state filing requirements, reach out to us.

Form 1099-MISC

With the introduction of 1099-NEC, Form 1099-MISC is changed as well. Now Form 1099-MISC will not be used for filing nonemployee payments.

Some examples of payments you must report on Form 1099-MISC:

According to the IRS, beginning with the tax year 2020, you should file 1099-MISC for each person to whom you have paid the following in the course of your business during the year.

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interests.
- At least \$600 in the following:
 - Rents.
 - Prizes and awards.
 - Other income payments.
 - Fishing boat proceeds.
 - Medical and healthcare payments.
 - Crop insurance proceeds.
 - Payment to an attorney.
 - Section 409A deferrals.
 - Nonqualified deferred compensation.

Some examples of payments not to be reported on Form 1099-MISC:

- Generally, payments to a corporation, with the following exceptions:
- Medical and healthcare payments (report in box 6).
- Gross proceeds paid to an attorney (report in box 10).
- Substitute payments in lieu of dividends or tax-exempt interest (report in box 8).
- Payments for merchandise, freight, storage, etc.
- Payments of rent to real estate agents or property managers.
- Wages or travel allowances paid to employees (use form W-2)
- Cost of current life insurance protection (use form W-2 or 1099-R).

- Payments to a tax-exempt organization, the United States, a State, the District of Columbia, or a foreign government.

Important notes for 1099-MISC

Due Dates:

Businesses must furnish the Form 1099-MISC to the recipients by January 31 (February 1 for 2021) (for non-Box 8 or 10) and February 16 for payments in Box 8 or 10, and file with the IRS by March 31.

Other important TIPS

- You must solicit Form W-9 to collect vendor tax ids.
- You must make up to three solicitations for the TIN to avoid a penalty for failing to include a TIN on a 1099 form.
- If a payee refuses to provide TIN – you should backup withhold. Inform the payee that refusal to provide TIN will result in 24% backup withholding.
- Payments to a non-US person must be reported on Form 1042-S and are subject to a 30% withholding.
- It is always a good idea to validate your vendors' TIN using the IRS's TIN matching program. TIN matching helps in reducing B-Notices and costs associated with it.

Contact Us

As always, we are here to support all your information returns filing needs. If you have any questions, please do not hesitate to contact our friendly customer support team.