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Form 1099 Preparation for Tax Practitioners

July 13, 2017



Agenda

- Preparing Form 1099-MISC can be difficult depending on the circumstances
- Two questions that often come up for businesses is who the form needs Form 1099 Misc. sent and when should it be sent, in addition
- Differences in where to report items
- Corrections and Void Returns

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Form 1099 General Information

- The due date for furnishing statements to recipients for Forms 1099-B, 1099-S, and 1099-MISC (if amounts are reported in Box 8 (Substitute payments in lieu of dividends or interest or Box 14 - Gross proceeds paid to an attorney) is February 15, 2018
- This also applies to statements furnished as part of a consolidated reporting statement

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Payments to Corporations and Partnerships

- Generally, payments to corporations are not reportable
- Regulations § 1.6049-4(c)(1)(ii) governs
- However, payments must be reported to corporations in the following situations:
 - Medical and health care payments (Form 1099-MISC)
 - Withheld federal income tax or foreign tax
 - Barter exchange transactions (Form 1099-B)
 - Broker and barter transactions for an S corporation (Form 1099-B)

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Payments to Corporations and Partnerships

- Substitute payments in lieu of dividends and tax-exempt interest (Form 1099-MISC)
- Acquisitions or abandonments of secured property (Form 1099-A)
- Cancellation of debt (Form 1099-C)
- Payments of attorneys' fees and gross proceeds paid to attorneys (Form 1099-MISC)
- Fish purchases for cash (Form 1099-MISC)
- Credits and interest for qualified tax credit bonds reported on Forms 1097-BTC and 1099-INT

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Payments to Corporations and Partnerships

- Merchant card and third-party network payments (Form 1099-K)
- Federal executive agency payments for services (Form 1099-MISC)
- Reporting generally is required for all payments to partnerships
 - For example, payments of \$600 or more made in the course of a trade or business to an architectural firm that is a partnership are reportable on Form 1099-MISC

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Certain Grantor Trusts

- Certain grantor trusts (other than WHFITs) may choose to file Forms 1099 rather than a separate statement attached to Form 1041, U.S. Income Tax Return for Estates and Trusts
- If the taxpayer has filed Form 1041 for a grantor trust in the past and they want to choose the Form 1099 filing method for 2018, they must have filed a final Form 1041 for 2017
- To change reporting method, review Reg. § 1.671-4(g) and the Instructions for Form 1041 and Schedules A, B, D, G, I, J, and K-1

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File Form 1099-MISC, Miscellaneous Income, for Each Person to Whom a Taxpayer Has Paid

- A person to whom the taxpayer has paid during the year:
 - At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest
- At least \$600 in:
 - Rents (Box 1)
 - Services performed by someone who is not an employee (including parts and materials), Box 7
 - Prizes and awards (Boxes 3 and 7)
 - Other income payments (Box 3)
 - Medical and health care payments (Box 6)

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File Form 1099-MISC, Miscellaneous Income, for Each Person to Whom a Taxpayer Has Paid

- Crop insurance proceeds (Box 10)
- Cash payments for fish (or other aquatic life) purchased from anyone engaged in the trade or business of catching fish (Box 7)
- Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (Box 3)
- Payments to an attorney – more on this later
- Any fishing boat proceeds (Box 5)
- In addition, use Form 1099-MISC to report that direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment (Box 9)
- A taxpayer also MUST file Form 1099-MISC for each person from whom they have withheld any federal income tax (Box 4) under the backup withholding rules regardless of the amount of the payment

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Where to Report

- Be sure to report each payment in the proper box
- The IRS uses this information to determine whether the recipient has properly reported the payment
- In addition, a reminder to tax professionals to report the information on the correct line of the income tax return to avoid a CP 2000 Notice

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Trade or Business Reporting Only

- Report on Form 1099-MISC only when payments are made in the course of a trade or business
- Personal payments are not reportable
- A taxpayer is engaged in a trade or business if they operate for gain or profit
- However, nonprofit organizations are considered to be engaged in a trade or business and are subject to these reporting requirements

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Trade or Business Reporting Only

- Other organizations subject to these reporting requirements include:
 - Trusts of qualified pension or profit-sharing plans of employers
 - Certain organizations exempt from tax under § 501(c) or (d),
 - Farmers' cooperatives that are exempt from tax under § 521
 - Widely held fixed investment trusts
 - Payments by federal, state, or local government agencies are also reportable

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Exceptions

- Some payments do not have to be reported on Form 1099-MISC, although they may be taxable to the recipient
- Payments for which a Form 1099-MISC is not required include all of the following:
 - Generally, payments to a corporation (including a limited liability company (LLC) that is treated as a C or S corporation
 - Payments for merchandise, telegrams, telephone, freight, storage, and similar items

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Exceptions

- Payments of rent to real estate agents
 - **The real estate agent must use Form 1099-MISC to report the rent paid over to the property owner**
- Wages paid to employees (report on Form W-2, Wage and Tax Statement)
- Military differential wage payments made to employees while they are on active duty in the Armed Forces or other uniformed services (report on Form W-2)
- Business travel allowances paid to employees (may be reportable on Form W-2)

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Exceptions

- Cost of current life insurance protection (report on Form W-2 or Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc)
- Payments to a tax-exempt organization including tax-exempt trusts (IRAs, HSAs, Archer MSAs, and Coverdell ESAs), the United States, a state, the District of Columbia, a U.S. possession, or a foreign government
- Payments made to or for homeowners from the HFA
- Hardest Hit Fund or similar state program (report on Form 1098-MA)

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Exceptions

- Compensation for injuries or sickness by the Department of Justice as a public safety officer disability or survivor's benefit
- A state program that provides benefits for surviving dependents of a public safety officer who has died as the direct and proximate result of a personal injury sustained in the line of duty
- Compensation for wrongful incarceration for any criminal offense for which there was a conviction under federal or state law

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Form 1099-K

- Payments made with a credit card or payment card and certain other types of payments, including third-party network transactions, must be reported on Form 1099-K by the payment settlement entity under § 6050W and are not subject to reporting on Form 1099-MISC

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Fees Paid to Informers

- A payment to an informer as an award, fee, or reward for information about criminal activity does not have to be reported if the payment is made by a federal, state, or local government agency, or
- B a nonprofit organization exempt from tax under § 501(c)(3) that makes the payment to further the charitable purpose of lessening the burdens of government
- Review Reg. § 1.6041-3(l)

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Scholarships

- Do not use Form 1099-MISC to report scholarship or fellowship grants
- Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2
- Other taxable scholarship or fellowship payments (to a degree or nondegree candidate) do not have to be reported by the taxpayer to the IRS on any form

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Difficulty-of-Care Payments

- Do not use Form 1099-MISC to report difficulty-of-care payments that are excludable from the recipient's gross income
- Difficulty-of-care payments to foster care providers are not reportable if paid for fewer than 11 children under age 19 and fewer than six individuals age 19 or older
- Amounts paid for more than 10 children or more than five other individuals are reportable on Form 1099-MISC
- Certain Medicaid waiver payments may be excludable from income as difficulty-of-care payments

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Canceled Debt

- A canceled debt is not reportable on Form 1099-MISC
- Canceled debts must be reported on Form 1099-C, Cancellation of Debt, by financial institutions, credit unions, federal government agencies, certain agencies connected with the federal government, and an organization where the lending of money (such as finance and credit card companies) is a significant trade or business

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Reportable Payments to Corporations- Review

- Medical and health care payments reported in Box 6
- Fish purchases for cash reported in Box 7
- Attorneys' fees reported in Box 7
- Gross proceeds paid to an attorney Box 14
- Substitute payments in lieu of dividends or tax-exempt interest Box 8
- Payments by a federal executive agency for services (vendors) Box 7

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Payments to Attorneys

- The term "attorney" includes a law firm or other provider of legal services
- Attorneys' fees of \$600 or more paid in the course of a trade or business are reportable in Box 7 of Form 1099-MISC
- Gross proceeds paid to attorneys - § 6045(f), report in Box 14 payments that:
 - Are made to an attorney in the course of a trade or business in connection with legal services, for example, as in a settlement agreement
 - Total \$600 or more and are not reportable in Box 7

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Attorney Fee Example

- An insurance company pays a claimant's attorney \$100,000 to settle a claim
- The insurance company reports the payment as gross proceeds of \$100,000 in Box 14
- The insurance company does not have a reporting requirement for the claimant's attorney's fees subsequently paid from these funds
- These rules apply whether or not the legal services are provided to the payer and whether or not the attorney is the exclusive payee (for example, the attorney's and claimant's names are on one check) or other information returns are required for some or all of a payment

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Attorney Fee Example

- A person who, in the course of a trade or business, pays \$600 of taxable damages to a claimant by paying that amount to a claimant's attorney
 - Are required to furnish Form 1099-MISC to the claimant under § 6041 and furnish Form 1099-MISC to the claimant's attorney under § 6045(f)
- For more examples and exceptions relating to payments to attorneys, review Reg. § 1.6045-5

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Payments to Corporations for Legal Services

- The exemption from reporting payments made to corporations does not apply to payments for legal services
- Therefore, a taxpayer must report attorneys' fees (Box 7) or gross proceeds (in Box 14) to corporations that provide legal services

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Deceased Employee's Wages – Year of Death - Payment

- If an employee dies during the year, report the accrued wages, vacation pay, and other compensation paid after the date of death
- If the payment is made in the same year the employee died, withhold social security and Medicare taxes on the payment and report them only as social security and Medicare wages on the employee's Form W-2 to ensure that proper social security and Medicare credit is received

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Deceased Employee's Wages – Year of Death- Payment

- On the Form W-2, show the payment as social security wages (Box 3) and Medicare wages and tips (Box 5) and the social security and Medicare taxes withheld in Boxes 4 and 6
- Do not show the payment in Box 1 of Form W-2

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Deceased Employee's Wages – Other Than Year of Death- Payment

- If the payment is made after the year of death, do not report it on Form W-2, and do not withhold social security and Medicare taxes
- Whether the payment is made in the year of death or after the year of death, remember to report the payment to the estate or beneficiary on Form 1099-MISC
- Report the payment in Box 3 (rather than in Box 7 as specified in Rev. Rul. 86-109)

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Deceased Employee's Wages

- Enter the name and TIN of the payment recipient on Form 1099-MISC
- If the recipient is an individual beneficiary, enter the name and social security number of the individual
- If the recipient is the estate, enter the name and employer identification number of the estate
- The general backup withholding rules apply to this payment
- Death benefits from nonqualified deferred compensation plans or § 457 plans paid to the estate or beneficiary of a deceased employee are reportable on Form 1099-MISC
- Do not report these death benefits on Form 1099-R

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Employee Business Expense Reimbursements

- Do not use Form 1099-MISC to report employee business expense reimbursements
- Report payments made to employees under a nonaccountable plan as wages on Form W-2
- Generally, payments made to employees under an accountable plan are not reportable on Form W-2, except in certain cases when the employer pays a per diem or mileage allowance

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Independent Contractor or Employee

- Report payments to independent contractors on Form 1099-MISC in Box 7
- Section 530 of the Revenue Act of 1978 as extended by § 269(c) of P.L. 97-248 deals with the employment tax status of independent contractors and employees
- To qualify for relief under § 530, employers must file Form 1099-MISC

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Box 1 Rents - \$600 or More for All Types of Rents

- Real estate rentals paid for office space - exceptions
- Machine rentals (for example, renting a bulldozer to level a parking lot)
 - If the machine rental is part of a contract that includes both the use of the machine and the operator, prorate the rental between the rent of the machine (report that in Box 1) and the operator's charge (nonemployee compensation in Box 7)
- Pasture rentals (for example, farmers paying for the use of grazing land)
- Public housing agencies must report in Box 1 rental assistance payments made to owners of housing projects Rev. Rul. 88-53,

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Coin-Operated Amusements – The Arrangement

- If an arrangement between an owner of coin-operated amusements and an owner of a business establishment where the amusements are placed is a lease of the amusements or the amusement space, the owner of the amusements or the owner of the space, whoever makes the payments, must report the lease payments in Box 1 of Form 1099-MISC
- If the arrangement is a joint venture, the joint venture must file a Form 1065, U.S. Return of Partnership Income, and provide each partner with the information necessary to report the partner's share of the taxable income

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Box 2 Royalties - Payments \$10 or More

- Report royalties from oil, gas, or other mineral properties before reduction for severance and other taxes that may have been withheld and paid
- Do not include surface royalties – report in Box 1
- Do not report oil or gas payments for a working interest in Box 2 - report payments for working interests in Box 7
- Do not report timber royalties made under a pay-as-cut contract - report these timber royalties on Form 1099-S
- Use Box 2 to report royalty payments from intangible property such as patents, copyrights, trade names, and trademarks

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Box 2 Royalties - Payments \$10 or More

- Report the gross royalties (before reduction for fees, commissions, or expenses) paid by a publisher directly to an author or literary agent, unless the agent is a corporation
- The literary agent (whether or not a corporation) that receives the royalty payment on behalf of the author must report the gross amount of royalty payments to the author on Form 1099-MISC whether or not the publisher reported the payment to the agent on its Form 1099-MISC

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Box 3 Other Income

- Enter other income of \$600 or more required to be reported on Form 1099-MISC that is not reportable in one of the other boxes on the form
- Enter in Box 3 prizes and awards that are not for services performed - include the fair market value (FMV) of merchandise won on game shows
- Include amounts paid to a winner of a sweepstakes not involving a wager
- If a wager is made, report the winnings on Form W-2G

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Box 3 Other Income

- If, not later than 60 days after the winner becomes entitled to the prize, the winner can choose the option of a lump sum or an annuity payable over at least 10 years, the payment of winnings is considered made when actually paid
- If the winner chooses an annuity, file Form 1099-MISC each year to report the annuity paid during that year

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Box 3 Other Income

- Prizes and awards received in recognition of past accomplishments in religious, charitable, scientific, artistic, educational, literary, or civic fields are not reportable if:
 - The winners are chosen without action on their part
 - The winners are not expected to perform future services
 - The payer transfers the prize or award to a charitable organization or governmental unit under a designation made by the recipient
- Rev. Proc. 87-54

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Box 3 Other Income - Other items Required to be Reported

- Deceased employee's wages
- Indian gaming profits, payments to tribal members
- A payment or series of payments made to individuals for participating in a medical research study or studies

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Box 3 Other Income

- Do not include prizes and awards paid to employees
 - Report these on Form W-2
- Do not include in Box 3 prizes and awards for services performed by nonemployees, such as an award for the top commission salesperson -report them in Box 7

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Box 3 - Other Income

- Termination payments to former self-employed insurance salespeople
 - These payments are not subject to self-employment tax and are reportable in Box 3 if **all** the following apply.
 - a. The payments are received from an insurance company because of services performed as an insurance salesperson for the company
 - b. The payments are received after termination of the salesperson's agreement to perform services for the company

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Box 3 - Termination Payments to Former Self-Employed Insurance Salespeople

- c. The salesperson did not perform any services for the company after termination and before the end of the year
- d. The salesperson enters into a covenant not to compete against the company for at least 1 year after the date of termination
- e. The amount of the payments depends primarily on policies sold by the salesperson or credited to the salesperson's account during the last year of the service agreement or to the extent those policies remain in force for some period after termination, or both
- f. The amount of the payments does not depend at all on length of service or overall earnings from the company (regardless of whether eligibility for payment depends on length of service)

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Box 3 - Termination Payments to Former Self-Employed Insurance Salespeople

- If the termination payments do not meet **all** these requirements, report Box 7

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Box 3 Other Income - Settlements

- Generally, all punitive damages, any damages for nonphysical injuries or sickness, and any other taxable damages belong on Box 3
- Report punitive damages even if they relate to physical injury or physical sickness
- Generally, report all compensatory damages for nonphysical injuries or sickness, such as employment discrimination or defamation in Box 3

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Box 3 Other Income - Settlements

- However, do not report damages (other than punitive damages):
 - a. Received on account of personal physical injuries or physical sickness
 - b. That do not exceed the amount paid for medical care for emotional distress;
 - c. Received on account of nonphysical injuries (for example, emotional distress) under a written binding agreement, court decree, or mediation award in effect on or issued by September 13, 1995; or
 - d. That are for a replacement of capital, such as damages paid to a buyer by a contractor who failed to complete construction of a building

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Box 3 – Other Income - Damages

- Damages received on account of emotional distress, including physical symptoms such as insomnia, headaches, and stomach disorders, are not considered received for a physical injury or physical sickness and are reportable unless described in (b) or (c)
- However, damages received on account of emotional distress due to physical injuries or physical sickness are not reportable
- Also report liquidated damages received under the Age Discrimination in Employment Act of 1967
- Taxable back pay damages may be wages and reportable on Form W-2
- Publication 957

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Foreign Agricultural Workers

- Report in Box 3 compensation of \$600 or more paid in a calendar year to an H-2A visa agricultural worker who did not provide a valid TIN
- Withhold federal income tax under the backup withholding rules

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Other Boxes Not Covered In Presentation

- Box 4 Federal Income Tax Withheld
- Box 5 Fishing Boat Proceeds
- Box 6 Medical and Health Care Payments
- Box 8 Substitute Payments in Lieu of Dividends or Interest
- Box 13 Excess Golden Parachute Payments
- Box 15a § 409A Deferrals
- Box 15b § 409A Income
- Boxes 16–18 State Information

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Box 7 – Nonemployee Compensation

- Enter nonemployee compensation of \$600 or more
- Fees and commissions
- Prizes and awards for services performed as a nonemployee
- Other forms of compensation for services performed in a trade or business by an individual who is not an employee
- Fish purchases for cash
- Include oil and gas payments for a working interest, whether or not services are performed

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Box 7 – Nonemployee Compensation

- Expenses incurred for the use of an entertainment facility that are treated as compensation to a nonemployee
- Federal executive agencies that make payments to vendors for services, including payments to corporations, must report the payments in this box - Rev. Rul. 2003-66

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What is Nonemployee Compensation?

- If the following four conditions are met, generally report a payment as nonemployee compensation
 - Made the payment to someone who is not an employee
 - Made the payment for services in the course of a trade or business (including government agencies and nonprofit organizations)
 - Made the payment to an individual, partnership, estate, or, in some cases, a corporation
 - Made payments to the payee of at least \$600 during the year

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Sample Form 1099- Misc.

The completed Form 1099-MISC illustrates the following example. Z Builders is a contractor that subcontracts drywall work to Ronald Green, a sole proprietor who does business as V Drywall. During the year, Z Builders pays Mr. Green \$6,500. Z Builders must file Form 1099-MISC because they paid Mr. Green \$600 or more in the course of their trade or business, and Mr. Green is not a corporation.

PAYER'S name, street address, city or town, state or province, country, ZIP + 4 th digit, or foreign postal code, and telephone no. Z Builders 123 Maple Avenue Oaktown, AL 00000 555-555-1212		OMB No. 1545-0047 Form 1099-MISC 2017		Miscellaneous Income Copy A For Internal Revenue Service Center File with Form 1096, For Privacy Act and Paperwork Reduction Act Notice, see the 2017 General Instructions for Certain Information Returns.
PAYER'S federal identification number 12-3456789		FEDERAL income tax withheld \$ 0		
RECIPIENT'S name Ronald Green dba/v V Drywall (Street address including apt. no.) 456 Flower Lane City or town, state or province, country, and ZIP + 4 th digit or foreign postal code Oaktown, AL 00000		Nonemployee compensation \$ 6,500.00		
RECIPIENT'S federal identification number 123-00-4789		Other income \$ 0		
Account number (see instructions) FATCA (b)(6) and TIN not required		Medical and health care payments \$ 0		
TIN 12-34-5678		State tax withheld \$ 0		
Section 408(a) deferrals \$ 0		State tax withheld \$ 0		
Section 408(a) income \$ 0		State tax withheld \$ 0		
Section 408(a) income \$ 0		State tax withheld \$ 0		

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Self-Employment Tax

- Generally, amounts reportable in Box 7 are subject to self-employment tax
- If payments to individuals are not subject to this tax and are not reportable elsewhere on Form 1099-MISC, report the payments in Box 3
- However, report § 530 (of the Revenue Act of 1978) worker payments in Box 7

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Examples

- Professional service fees, such as fees to attorneys (including corporations), accountants, architects, contractors, engineers, etc
- Fees paid by one professional to another, such as fee-splitting or referral fees
- Payments by attorneys to witnesses or experts in legal adjudication
- Commissions paid to nonemployee salespersons that are subject to repayment but not repaid during the calendar year

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Examples

- Payment for services, including payment for parts or materials used to perform the services if supplying the parts or materials was incidental to providing the service
 - For example, report the total insurance company payments to an auto repair shop under a repair contract showing an amount for labor and another amount for parts, if furnishing parts was incidental to repairing the auto

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Examples

- A fee paid to a nonemployee, including an independent contractor, or travel reimbursement for which the nonemployee did not account to the payer, if the fee and reimbursement total at least \$600
- Payments to nonemployee entertainers for services
- Use Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, for payments to nonresident aliens
- Exchanges of services between individuals in the course of their trades or businesses

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Examples

- Taxable fringe benefits for nonemployees
- Gross oil and gas payments for a working interest
- Payments to an insurance salesperson who is not a common law or statutory employee
- Directors' fees
- Commissions paid to licensed lottery ticket sales agents
- Payments to section 530 (of the Revenue Act of 1978) workers
- Fish purchases for cash

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Payments not Reported in Box 7

- Expense reimbursements paid to volunteers of non-profit organizations
- Deceased employee wages paid in the year after death
- Payments more appropriately described as rent
- The cost of current life insurance protection (report on Form W-2 or Form 1099-R)
- An employee's wages, travel or auto allowance, or bonuses and prizes (report on Form W-2)
- The cost of group-term life insurance paid on behalf of a former employee (report on Form W-2)

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Box 10 Crop Insurance Proceeds

- Enter crop insurance proceeds of \$600 or more paid to farmers by insurance companies unless the farmer has informed the insurance company that expenses have been capitalized under §§ 278, 263A, or 447

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Box 14 Gross Proceeds Paid to an Attorney

- Enter gross proceeds of \$600 or more paid to an attorney in connection with legal services (regardless of whether the services are performed for the payer)

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Transit Passes and Parking for Independent Contractors

- Although a client cannot provide qualified transportation fringes to independent contractors, the working condition and de minimis fringe rules for transit passes and parking apply to independent contractors
- Tokens or farecards that enable an independent contractor to commute on a public transit system (not including privately operated van pools) are excludable from the independent contractor's gross income and are not reportable on Form 1099-MISC if their value in any month is \$21 or less

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But

- If the value of a pass provided in a month is greater than \$21, the full value is includible in gross income and is reportable on Form 1099-MISC
- The value of parking may be excludable from an independent contractor's gross income, and, therefore, not reportable on Form 1099-MISC if certain requirements are met
- See Regulations section 1.132-9(b), Q/A-24

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Regulations section 1.132-9(b), Q/A-24

- May qualified transportation fringes be provided to individuals who are partners, 2-percent shareholders of S-corporations, or independent contractors?
- General rule
 - § 132(f)(5)(E) states that self-employed individuals who are employees within the meaning of § 401(c)(1) are not employees for purposes of § 132(f)
- Therefore, individuals who are partners, sole proprietors, or other independent contractors are not employees for purposes of § 132(f)

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Regulations section 1.132-9(b), Q/A-24

- In addition, under § 1372(a), 2-percent shareholders of S corporations are treated as partners for fringe benefit purposes
- Thus, an individual who is both a 2-percent shareholder of an S corporation and a common law employee of that S corporation is not considered an employee for purposes of § 132(f)
- However, while § 132(f) does not apply to individuals who are partners, 2-percent shareholders of S corporations, or independent contractors, other exclusions for working condition and de minimis fringes may be available

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Regulations section 1.132-9(b), Q/A-24

- Transit passes
 - The working condition and de minimis fringe exclusions under § 132(a)(3) and (4) are available for transit passes provided to individuals who are partners, 2-percent shareholders, and independent contractors
- For example, tokens or farecards provided by a partnership to an individual who is a partner that enable the partner to commute on a public transit system (not including privately-operated van pools) are excludable from the partner's gross income if the value of the tokens and farecards in any month does not exceed the dollar amount specified in § 1.132-6(d)(1)

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Regulations section 1.132-9(b), Q/A-24

- However, if the value of a pass provided in a month exceeds the dollar amount specified the full value of the benefit provided is includible in gross income
- Parking
 - The working condition fringe rules under § 132(d) do not apply to commuter parking
 - However, the de minimis fringe rules under § 132(e) is available for parking provided to individuals who are partners, 2-percent shareholders, or an independent contractors that qualifies under the de minimis rules

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Example

- Josh is a partner in Josh and Jessica a partnership
- Josh commutes to and from the office every day and parks free of charge in the partnerships parking lot
- The value of the parking is not excluded under § 132(f), but may be excluded under § 132(e) if the parking is a de minimis fringe
- Reminder, the current parking and transit amount for 2017 is \$255 per month for combined commuter highway vehicle transportation and transit passes \$255 per month for qualified parking

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Directors' Fees

- Report directors' fees and other remuneration, including payments made after retirement, on Form 1099-MISC in the year paid, Box 7

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Indian Gaming Profits, Payments to Tribal Members

- If making payments to members of Indian tribes from the net revenues of class II or class III gaming activities conducted or licensed by the tribes, withhold federal income tax
- File Form 1099-MISC to report the payments and withholding to tribal members
- Report the payments in Box 3 and the federal income tax withheld in Box 4
- Pub. 15-A contains the necessary Tables for Withholding on Distributions of Indian Gaming Profits to Tribal Members

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Truncating Recipient's Taxpayer Identification Number on Paper Statements

- All filers may truncate a recipient's taxpayer identification number
 - Social security number (SSN)
 - Individual taxpayer identification number (ITIN)
 - Adoption taxpayer identification number (ATIN)
 - Employer identification number (EIN)) on payee statements
- Truncation is not allowed on any documents the filer files with the IRS
- A payer's taxpayer identification number may not be truncated on any form

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Name Controls

A name control consists of up to four characters



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Individuals

- Ralph **Teak**; Dorothy **Willow**; Joe **McCedar**
- If an individual has a hyphenated last name, IRS name control is from the first of the two last names
 - Joan **Cedar**-Hawthorn
 - Victoria **Windsor**-Maple
- For joint accounts, regardless of whether the payees use the same or different last names, the IRS name control from the primary payee's last name
 - Joseph **Ash** & Linda Birch
 - Edward & Joan **Maple**

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Hint – Social Security Name Changes

- On name line one, of the Form 1099, a payer should enter the payee's first name and new last name (if the change has been made with SSA), or the payee's first name, former last name, and new last name (if the change has not been made with SSA)

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Sole Proprietors

- The name control (first name line) from the last name on the information return
 - Mark **Hemlock**; The Sunshine Café
 - Karen **Birch**; Ace Computer Co.
- Hint: Payers may enter a sole proprietor's business, trade, or "doing business as" name on the second name line of the information return
- However, the individual name must be provided on the first name line

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Estates

- The name control for a decedent’s estate is the decedent’s name on the first name line on the information return
- The decedent’s name may be followed by the word “Estate” (The TIN should be the one that was assigned to the estate)
 - Frank **White** Estate, Alan Greene, Exec
 - Estate of Frank **White**, John Black, Exec

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Trusts and Fiduciaries

- The name control for a trust or fiduciary account is the name of the person in whose name the trust or fiduciary account was established
 - Jonathan **Periwinkle** Irrevocable Trust, FBO Patrick Redwood, Chestnut Bank, Trustee
 - **Memory** Church Endowment Trust, John Waxbean, Trustee

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Partnerships

- The name control for a partnership is the trade or business name of the partnership
- If there is not any, the name control is the last name of the first partner listed on the original Form SS-4 (which was used to apply for the EIN)
 - (The) **Oak** Tree A.S. Greene, K.L. Black & O.H. Brown, Ptrs
 - Bob Orange & Carol Black, et al Ptrs. d.b.a., The **Merry** Go Round
 - E.F. Brown, M.S. White & T.J. Green, Ptrs., The **Brown** & White Company

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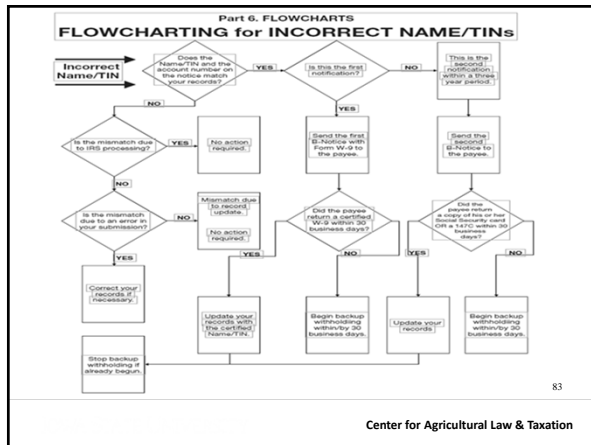
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Other Organizations

- The name control for other organizations is the entity's name on the original Form SS-4 (which was used to apply for the EIN)
 - **St Bernard's Methodist Church Building, Fund for St. Bernard's Church**
 - **ABC Company, Main Street Store**
- Extraneous words, titles, and special characters (i.e., Mr., Mrs., Dr., and apostrophes, etc.), may be dropped during the development of name controls
- For example, IRS would drop the period in St. Bernard's Methodist Church

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Forms 1099 In General



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Who is the Payee?

- The instructions, define the term “payee” to mean any recipient of Forms 1097, 1098, 1099, 3921, 3922, 5498, or W-2G including:
 - Beneficiaries
 - Borrowers
 - Debtors
 - Donors
 - Employees
 - Insureds
 - Participants
 - Policyholders
 - Shareholders, students, transferors, and winners

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Where to File?

- All information returns filed on paper will be filed with only two Internal Revenue Service Centers:
 - Austin, TX
 - Kansas City, MO

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Use Form 1096 To Send Paper Forms to the IRS

- You must send Copies A of all paper Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G to the IRS with Form 1096, Annual Summary and Transmittal of U.S. Information Returns
- IRS has front-end processing for Forms 1099
- Social Security has front end processing for Forms W-2 and then transmits the information to IRS

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What Is a TIN?

- The term "TIN" is defined as the identifying number assigned to a person under § 6109
- Specifically, a TIN may be
 - Social Security Number (SSN)
 - Employer Identification Number (EIN)
 - Individual Taxpayer Identification Number (ITIN), or
 - Adoption Taxpayer Identification Number (ATIN)
- A valid Social Security Number may only be issued by the Social Security Administration
- An EIN, ITIN or, ATIN may only be obtained through the Internal Revenue Service

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What is a Form W-9?

- Form W-9, "Request for Taxpayer Identification Number and Certification", certifies the payee's name and TIN
- In addition it certifies that the payee is not subject to backup withholding, and they are a U.S. person, including a U.S. resident alien

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How Does IRS Differentiate Between an 'Invalid' and a 'Missing' TIN?

- A missing TIN is either completely missing, or contains invalid characters such as alphas or hyphens
- An invalid TIN is one that doesn't match IRS records for that name/TIN combination
- A TIN not currently issued cannot be found in either IRS or SSA records
- Also TIN's issued in a new year may not match the IRS system
- Ex: EIN not issued until 2018, but was really needed in 2017 – filing a form electronically may reject

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Nominee/Middleman Returns

- Generally, if a taxpayer receives a Form 1099 for amounts that actually belong to another person, they are considered a nominee recipient
- They must file a Form 1099 with the IRS (the same type of Form 1099 received) for each of the other individuals showing the amounts allocable to each
- They must also furnish a Form 1099 to each of the other individuals
- File the new Form 1099 with Form 1096 with the Internal Revenue Service Center

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Nominee/Middleman Returns

- On each new Form 1099, list the taxpayer as the “payer” and the other individual as the “recipient”
- On Form 1096, list the taxpayer as the “Filer”
- A spouse is not required to file a nominee return to show amounts owned by the other spouse
- The nominee, not the original payer, is responsible for filing the subsequent Forms 1099 to show the amount allocable to each individual

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When to File

- File Forms 1097, 1098, 1099, 3921, 3922, or W-2G on paper by February 28, 2018, or April 2, 2018, if filing electronically
- File Forms 5498, 5498-ESA, 5498-QA, and 5498-SA by May 31, 2018
- Form 1096 must accompany all paper submissions
- **File Form 1099-MISC on paper or electronically by January 31, 2018, if the taxpayer is reporting Nonemployee Compensation in Box 7**

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Meeting the Requirement of When to File

- The taxpayer will meet the requirement to file if the form is properly addressed and mailed on or before the due date
- If the regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day
- A business day is any day that is not a Saturday, Sunday, or legal holiday

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Extension of Time to File

- The client can get an automatic 30-day extension of time to file by completing Form 8809
- The form may be submitted on paper, or through the FIRE System either as a fill-in form or an electronic file
- No signature or explanation is required for the extension
- However, they must file Form 8809 by the due date of the returns in order to get the 30-day extension
- Under certain hardship conditions they may apply for an additional 30-day extension

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Filing

- For filing with the IRS, follow the usual procedures for filing electronically if the taxpayer is filing 250 or more of a form type

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Keeping Copies

- Generally, keep copies of information returns filed with the IRS or have the ability to reconstruct the data for at least 3 years, 4 years for Form 1099-C, from the due date of the returns
- Keep copies of information returns for 4 years if backup withholding was imposed

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Paper Document Reporting

- Although handwritten forms are acceptable, they must be completely legible and accurate to avoid processing errors
- Handwritten forms often result in name/TIN mismatches
- Use block print, not script characters
- Type entries using black ink in 12-point Courier font
- Copy A is read by machine and must be typed clearly using no corrections in the data entry fields
- Data must be printed in the middle of the blocks, well separated from other printing and guidelines

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Paper Document Reporting

- Entries completed by hand, or using script, italic, or proportional spaced fonts, or in colors other than black, cannot be read correctly by machine
- Make all dollar entries without the dollar sign, but include the decimal point (00000.00)
- Show the cents portion of the money amounts
- If a box does not apply, leave it blank
- Do not use staples on any forms

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Paper Document Reporting

- Do not enter 0 (zero) or "None" in money amount boxes when no entry is required
- Leave the boxes blank unless the instructions specifically require an entry of 0 (zero)
- For example, in some cases, you must enter 0 (zero) to make corrections
- Do not enter number signs (#)—RT 2, not Rt. #2
- Send the entire page of Copy A of the information returns with Form 1096 to the IRS even if some of the forms are blank or void

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Multiple Filings

- If, after the forms are filed it is discovered that additional forms are required to be filed, file these forms with a new Form 1096
- Do not include copies or information from previously filed returns

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Required Format

- Do not cut or separate Copies A of the forms that are printed two or three to a sheet
- Generally, Forms 1097, 1098, 1099, 3921, 3922, and 5498 are printed two or three to an 8 x 11 inch sheet
- Form 1096 is printed one to an 8 x 11 inch sheet
- These forms must be submitted to the IRS on the 8 x 11 inch sheet
- If at least one form on the page is correctly completed, you must submit the entire page
- Send the forms to the IRS in a flat mailing (not folded)

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Required Format

- Do not cut off the excess paper, unless you are using a pin-feed printer
- If so, remove the pin-feed strip
- No photocopies of any forms are acceptable

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Required Format

- Do not staple, tear, or tape any of these forms, this interferes with the IRS' ability to scan the documents
- Pin-feed holes on the form are not acceptable
- Pin-feed strips outside the 8 x 11 inch area must be removed before submission, without tearing or ripping the form
- Substitute forms prepared in continuous or strip form must be burst and stripped to conform to the size specified for a single sheet (8 x 11 inches) before they are filed with the IRS

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Required Format

- Do not change the title of any box on any form
- Do not use a form to report information that is not properly reportable on that form
- If the taxpayer is unsure of where to report the data, call the information reporting customer service site at 1-866-455-7438 (toll free)
- Report information only in the appropriate boxes provided on the forms
- Make only one entry in each box unless otherwise indicated in the form's specific instructions

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Required Format

- Do not submit any copy other than Copy A to the IRS
- Do not use prior year forms unless the reporting of prior year information is required for that year
- Do not use subsequent year forms for the current year
- Because forms are scanned, the current year form must be used to report current year information
- Use the official forms or substitute forms that meet the specifications in Pub 1179

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Required Format

- If the client submits substitute forms that do not meet the current specifications and that are not scannable, they may be subject to a penalty for each return for improper format
- Do not use dollar signs (\$), ampersands (&), asterisks (*), commas (,), or other special characters in money amount boxes
- Do not use apostrophes ('), asterisks (*), or other special characters on the payee name line

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Common Errors


- Duplicate filing
- Multiple filings
- Filer's name, address, and TIN are not the same on Form 1096 and the attached Forms 1097, 1098, 1099, 3921, 3922, 5498, or W-2G
- Decimal point to show dollars and cents omitted
 - For example, 1230.00 is correct, not 1230
- Two or more types of returns submitted with one Form 1096 (for example, Forms 1099-INT and 1099-MISC with one Form 1096)
- The taxpayer must submit a separate Form 1096 with each type of return

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Corrections



Corrected Returns on Paper Forms

- If the taxpayer filed a return with the IRS and later discover they made an error on it, they must:
 - Correct it as soon as possible and file Copy A and Form 1096 with the Internal Revenue Service Center and furnish statements to recipients showing the correction
- When making a correction, complete all information
- Do not cut or separate forms that are two or three to a page
- Submit the entire page even if only one of the forms on the page is completed

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Corrected Returns on Paper Forms

- Do not staple the forms to Form 1096
- Do not send corrected returns to the IRS if the client is correcting state or local information only
- Contact the state or local tax department for help with this type of correction

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Reporting Incorrect Payer Name and/or TIN

- If a payer discovers an error in reporting the payer (not recipient) name and/or TIN, write a letter containing the following information.
 - 1. Name and address of the payer
 - 2. Type of error (including the incorrect payer name/TIN that was reported)
 - 3. Tax year
 - 4. Payer TIN
 - 5. Transmitter Control Code (TCC)
 - 6. Type of return
 - 7. Number of payees
 - 8. Filing method (paper or electronic)
 - 9. Was federal income tax withheld?

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Reporting Incorrect Payer Name and/or TIN

- Send the letter to:
 - Internal Revenue Service
 - Information Returns Branch
 - 230 Murall Drive, Mail Stop 4360
 - Kearneysville, WV 25430
- If a payer realizes duplicate reporting or a large percentage of incorrect information has been filed, contact the information reporting customer service site at 1-866-455-7438 for further instructions

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Form 1096

- Use a separate Form 1096 for each type of return that requires correcting
- For the same type of return, use one Form 1096 for both originals and corrections
- The taxpayer does not need to correct a previously filed Form 1096

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Corrected Checkbox

- Enter an "X" in the "CORRECTED" checkbox only when correcting a form previously filed with the IRS or furnished to the recipient
- **Certain errors require two returns to make the correction**
- Account number
 - If the account number was provided on the original return, the same account number must be included on both the original and corrected returns to properly identify and process the correction

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Corrected Checkbox

- If the account number was not provided on the original return, do not include it on the corrected return
- Recipient's statement
 - The taxpayer should enter a date next to the "CORRECTED" checkbox
 - This will help the recipient in the case of multiple corrections

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Filing Corrected Returns on Paper Forms

- IRS provides an error chart providing a step-by-step instructions for filing corrected returns for the most frequently made errors
- They are grouped under Error Type 1 or 2
- Correction of errors may require the submission of more than one return

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Void Returns

- An "X" in the "VOID" box at the top of the form will not correct a previously filed return
- If a completed or partially completed Form 1097, 1098, 1099, 3921, 3922, or 5498 is incorrect and the taxpayer wants to void it before submission to the IRS, enter an "X" in the "VOID" box at the top of the form
- For example, if an error is made while typing or printing a form, void it
- The return will then be disregarded during processing by the IRS

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Void Returns

- Proceed to the next form on the page, or to another page, and enter the correct information
- Do not mark the "CORRECTED" box
- Do not cut or separate the forms that are two or three to a page
- Submit the entire page even if only one of the forms on the page is a good return

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The Scoop – Upcoming Dates

- July 19
- August 2
- August 16
- August 30
- September 13
- October 4
- October 18
- November 1
- Held at 8:00 am and 12:00 pm Central time

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Up Coming Webinars
<http://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

- Tax Basis for Farmers July 24
- Reconstructing Records for Tax Compliance August 17
- Uber/Lyft Drivers and Business Expenses August 22
- Tax Reform and New Law Update October 17
- New Partnership Audit Rules October 19

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Upcoming Seminars – Mark Your Calendar – Final Dates

- S Corporation – July 20-21, 2017, Live and Webinar
- September 21, 2017 Ag Law Seminar, Live and Webinar
- September 22, 2017 Farm and Estate Tax Review, Live and Webinar
- Retirement and Social Security Issues(Webinar) = October 10-11, 2017

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The Schedule is Finalized for the 44th Annual Federal Income Tax Schools

- November 2-3, 2017 – Maquoketa, Iowa – Centerstone Inn and Suites
- November 6-7, 2017 – Le Mars, Iowa – Le Mars Convention Center
- November 8-9, 2017 – Atlantic, Iowa – Cass County Community Center
- November 9-10, 2017 – Mason City, Iowa – North Iowa Area Community College
- November 16-17, 2017 – Ottumwa, Iowa – Indian Hills Community College
- November 20-21, 2017 – Waterloo, Iowa – Hawkeye Community College
- December 11-12, 2017 – Ames, Iowa and Live Webinar – Quality Inn and Suites

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