



1099 RULES FOR BUSINESS OWNERS

The general rule is that business owners, including sole proprietors, must issue **Form 1099-NEC** or **Form 1099-MISC** to each person (including unincorporated businesses) **and to any attorney** to whom you paid **\$600 or more** during the year for:

- Services (including parts and materials)
- Rents
- Prizes and awards
- Other income payments

Personal payments do not require 1099s.

You must issue 1099s only for payments made **in the ordinary course of your trade or business**, and **not** for payments made by **credit card, debit card, or third-party payment processors**.

Penalties:

Failure to file correct 1099s can result in penalties from **\$60–\$340 per form**, depending on when the form is filed. Small businesses may face up to **\$1,366,000** in annual penalties (larger businesses up to **\$4,098,500**). Intentional disregard carries a **minimum penalty of \$680 per form with no maximum**.

1099-NEC vs. 1099-MISC: What's the Difference?

The IRS split non-employee compensation into its own form in 2020. Here's how to know which form to use:

Form 1099-NEC (“Nonemployee Compensation”)

Use this form for payments of **\$600 or more** made to individuals or businesses **for services** performed for your trade or business. Examples include:

- Independent contractors
- Freelancers
- Subcontractors
- Professional service providers (consultants, bookkeepers, graphic designers, etc.)
- Attorneys paid for services

If the payment is for **services**, and the payee is **not your employee**, this usually belongs on Form 1099-NEC.

Form 1099-MISC

Use this form for certain **non-service payments**, including:

- **Rents** (e.g., office space, equipment rental)
- **Prizes and awards**
- **Other income**
- **Medical and healthcare payments**
- **Payments to attorneys for settlements** (but not for legal services, those go to the NEC)

In short, **NEC = services, MISC = most other taxable payments.**

Who Must Receive a Form 1099?

If you paid **\$600 or more** during the year in the normal course of business, you must issue a 1099 to any:

- Individual
- Partnership
- LLC taxed as a sole proprietorship or partnership
- LP
- Estate

Who Counts as a Vendor or Subcontractor?

Anyone who performs **services** for your business and is **not your employee** generally qualifies.

Common Exceptions

You generally **do not** need to issue a 1099 to:

- **C-Corporations and S-Corporations** (their Form W-9 will tell you)
- **Merchandise sellers**
- **Freight, storage, and similar service providers**
- **Landlords receiving rent through a property manager or real estate agent**

But if you pay rent directly to a landlord who is not a corporation, you typically must issue a 1099-MISC.

Payments You Can Ignore for 1099 Purposes

Do **not** issue 1099s for payments made by:

- Credit card
- Debit card
- Gift card
- PayPal or Venmo **business** accounts
- Any third-party processor marking the transaction as “goods and services”

Important: Zelle is not a third-party payment network. Payments of \$600+ via Zelle still require you to issue a 1099.

Your Best Friend: Form W-9

A best practice: **Request a W-9 from every vendor before you pay them.**

A W-9 gives you:

- Legal name and address
- Taxpayer Identification Number (TIN)
- Entity type (so you know whether a 1099 is required)

This eliminates year-end scrambling for missing information.

Filing Procedures

You cannot download and mail 1099 forms printed from the IRS website.

Official red-ink forms must be:

- Ordered from the IRS, or
- Purchased from an office-supply retailer

(We can also handle electronic filing for you, see below.)

Deadlines

To recipients (vendors):

All Forms **1099-NEC** and **1099-MISC** must be delivered by you by **January 31**.

To the IRS:

- **1099-NEC:** Due **January 31** (paper or electronic).
- **1099-MISC:**
 - **January 31** if filing **electronically**, or
 - **February 28** if filing **on paper** (with Form 1096).

Payments to Foreign Workers

If you hire a **non-U.S. citizen** and they perform **any services inside the United States**, you generally must issue a 1099.

To document their foreign status and where services were performed, have them complete **Form W-8BEN**.

The Good News

We make this whole process simple and easy.

We will prepare and electronically file your **Form 1096** and all necessary **Forms 1099** for:

- **\$250** for up to five 1099s
- **\$20** for each additional form

Please contact our office at 410-823-5442 or your Accounting Specialist and we'll take it from there.