

Practical Tips To Know About Form 1099s During Tax Time

By Robert W. Wood

It's that time of year again, when IRS Forms 1099 arrive. Perhaps no one likes IRS Forms 1099 except the Internal Revenue Service. The agency *loves* them, because they allow for the easy computer matching of Form 1099 data against tax returns. Businesses may not like sending the forms out, but there are penalties for failing to issue them. Besides, no one wants trouble from the IRS. So as all the forms descend this time of year, here are 10 things to know about Forms 1099.

1. *Better to give than to receive.* Generally, businesses must issue the forms to any payee (other than a corporation) who receives \$600 or more during the year. That's just the basic threshold rule, but there are many exceptions. That's why you probably get a Form 1099 for every bank account you have, even if you earned only \$10 of interest income.

2. *Report every 1099.* The key to Forms 1099 is IRS's matching. Every Form 1099 includes the payer's employer identification number and the payee's Social Security number. The IRS matches Forms 1099 with the payee's tax return. If you disagree with the information on the form but can't convince the payer you're right, explain it on your tax return. If you receive a Form 1099, you can't just ignore it, because the IRS won't.

3. *There are many varieties.* There's a 1099-INT for interest; 1099-DIV for dividends; 1099-G for state and local tax refunds and unemployment benefits; 1099-R for pensions and payouts from your individual retirement accounts; 1099-B for broker transactions and barter exchanges; 1099-S for real estate transactions, etc. There are many categories, but the Form 1099-MISC (for miscellaneous) seems to prompt the most questions and covers the biggest territory.

4. *Timing is everything.* Businesses must send out Forms 1099 by Jan. 31 for the prior calendar year. However, don't assume you're off the hook for reporting income if you don't receive a Form 1099 by February or even March. There are penalties on companies that issue Forms 1099 late, but some come as late as April or May when you may have already filed your return. Even if you never receive a Form 1099, if you receive income, you must report it. You don't need a 1099 to report income.

Law firms must send the forms just like other businesses. For example, report payments to co-counsel, payments to independent contractor lawyers, process servers, etc. In each case, the \$600 threshold applies.

But many lawyers are surprised to learn that they generally are not required to issue Forms 1099 to clients on settlement monies. Say the lawyer receives \$100,000 from the defendant, deducts a fee of \$40,000, and remits \$60,000 to the client. The defendant is usually considered the payor of the money, not the lawyer, so the defendant issues the Form 1099.

5. *Beware changed addresses.* The information will be reported to the IRS based on your Social Security number regardless of whether you receive the form. Update your address directly with payers, as well as putting a forwarding order in with the U.S. Post Office. You'll want to see any forms the IRS sees.

6. *The IRS gets them, too.* Any Form 1099 sent to you *also* goes to the IRS. The deadline is Jan. 31 for mailing Forms 1099 to taxpayers, but the payer generally has until the end of February to send all its Forms 1099 to the IRS. This year (2017, for 2016 payments), the IRS moved up the filing date for Forms 1099-MISC reporting non-employee compensation in box 7. The reporting date to the IRS this year was the same as the due date for the forms to be issued to recipients, January 31. If you are late on these dates, it is better to file late than not at all.

7. *Report errors promptly.* If there is an error on a Form 1099 tell the payer immediately. There may be time for the payer to correct it *before* sending it to the IRS. If the payer has already dispatched the incorrect form to the IRS, ask the payer to send in a corrected form.

8. *IRS Notices.* If you forget to report a Form 1099, the IRS will send you a computer-generated letter billing you for the taxes. If it's correct, just pay it.

9. *Consider state taxes, too.* Most states have an income tax, and they will receive the same information as the IRS. If you missed a 1099 on your federal return, your state will probably bill you too.

10. *Don't ask.* Keeping payers advised of your current address is a good idea, as is reporting errors to payers. However, if you don't receive a Form 1099 you expect, consider not asking for it. In some cases, if you are missing an IRS Form 1099, you may want to keep quiet. If you are expecting a Form 1099, you know about the income, so just report that amount on your tax return. IRS computers have no problem with that. If you call or write the payer and raise the issue, you may end up with two of them, one issued in the ordinary course (even if it never got to you), and one issued because you called.

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