



December 29, 2022

Importance of Form 1099

Every business entity which has paid commission, fee, service charge (including parts and materials), rent, interest, or pension during the year must issue **Form 1099** to every payee by **January 31st** of the following year and report to IRS by the end of January except for those payments made to material suppliers.

Form 1099 must be issued to a recipient (a person or an entity) when any of the following circumstances exist:

1. At least **\$600**, whether aggregated or not, in a year was paid as commission, fee, service charge, rent, or etc. to a recipient
2. Direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment
3. Payments were made to independent contractors or subcontractors.
4. Gross proceeds of \$600 or more paid to an attorney
5. At least \$10 whether aggregated or not, in a year was paid as interest, dividend, royalties or pension to a recipient

Recently IRS has placed stricter regulation on auditing Form 1099 issuance and began penalizing taxpayers (payer) for non-compliance. For any reasons you did not file Form 1099, **\$50 ~ \$550** per form penalty could be imposed to the payer. Furthermore, expenses not backed up by Form 1099s can be disallowed by government auditors.

You must withhold **28%** of gross payments under following circumstances:

1. Failure to furnish TIN in the manner required
2. Notice from IRS that payee's TIN is incorrect
3. Notice from the IRS that payee is subject to backup withholding due to notified payee underreporting
4. Payee's failure to certify that he or she is not subject to backup withholding

The amounts withheld should be submitted by filing **Form 945** (Annual Return of Withheld Federal Income Tax) by **January 31st of the following year**.

It is important that you as a payer to collect **Form W-9** prior to making the first payment to a recipient. If you do not have all Form W-9s, you should try collecting them before the year end and provide us with copies.

You may download Form W-9 from the following IRS link. <http://www.irs.gov/pub/irs-pdf/fw9.pdf>



1099-K reduced threshold delayed to 2023

Beginning in tax year 2023, individuals, partnerships, LLCs, and corporations that earn more than \$600 through various online venues will start receiving Form 1099-K, Payment Card and Third-Party Network Transactions, on which that income will be reported to themselves and the IRS.

This threshold change comes as a result of the American Rescue Plan Act that was signed into law on March 11, 2021. Originally, this threshold change was set to be effective in 2022. However, the IRS has delayed the implementation to 2023.

What is the 1099-K form?

Per the IRS, “Form 1099-K, Payment Card and Third Party Network Transactions, is an IRS information return used to report certain payment transactions to improve voluntary tax compliance.” Essentially, this form is a way to ensure online retailers are reporting the appropriate amount of sales for tax purposes.

New gross payment threshold for 2023

For 2022, 1099-K is generated when 1) gross payments exceed \$20,000, AND 2) there are more than 200 such transactions from payment card transactions. However, beginning in 2023, the new gross payment threshold is \$600. Going forward, this new update means that you are required to file a 1099-K form and report it to the IRS and the customer if the payment exceeds \$600 in one year.

What to do?

If you are a company that uses an online platform like eBay or PayPal and would reach the new \$600 threshold, the payment company would send you a 1099-K form for reporting. Be sure to be thorough in your review of the sales and ensure they match what you have in your reporting. If you are unsure of how the 1099-K threshold change impacts you, we recommend reaching out to our office for more detailed guidance.