



KEAN & COMPANY^{LLC}

CERTIFIED PUBLIC ACCOUNTANTS

Dear Client:

We would like to remind you of the rules and regulations with respect to the **issuance of 1099s for the 2016 calendar year**. It is your responsibility as a business owner to comply with the reporting requirement as it pertains to such payments. **Forms 1099-MISC are due to the IRS and recipients on January 31st, 2017, which is an earlier due date than in prior years.**

As the IRS continue to ramp up the enforcement of 1099 compliance by small businesses, it's never been more important to meet the requirements. In fact, the IRS asks you to answer these two questions on all federal tax returns:

- 1. Did the business make any payments in the year that would require it to file Form(s) 1099?**
- 2. If yes, did or will the business file the required Forms 1099?**

By responding to these questions, you are indicating (under penalty of perjury) that your tax return is accurate and complete – Including your 1099 filing.

The penalties associated with not filing can range from \$50 - \$260 per 1099 for failure to file each form and can reach as high as \$530 per 1099 reporting if the IRS determines there is intentional disregard of the requirement. The cap on the penalties charged can be as high as \$1,064,000 for small businesses. Additionally, under IRS audit, subcontractor expenses could be denied as a valid business expense without accurate 1099 filing documentation. This could have a devastating impact on your business.

1099s capture non-employee income for the IRS. There are a handful of different 1099 forms but the most common is Form 1099-Misc, used to report payments of \$600 or more to report non-corporate entities for services, such as vendors, independent contractors, freelancers and consultants.

What do you need to do to assimilate the needed information?

- 1. Review your business accounting records for the 2016 calendar year to determine if you have any payments that may require 1099 reporting. Refer to our attachment or call our office if you need guidance.**
- 2. Provide our office with the necessary documents to complete your company's 2016 Form 1099s.**
 - a. Completed W-9s for all reportable 1099 recipients, which includes their legal name, address, and tax ID number**
 - b. Total of **all** payments made to each 1099 recipient during the 2016 calendar year**

There are printable IRS W-9 forms available on our website (www.keanandcompany.com) under **Resources** to assist you in collecting pertinent information related to 1099 preparation. If you need further assistance, please feel free to contact our office. Thank you in advance for your time in gathering this detail. Our goal is to keep you compliant with the current laws and your help in getting us the documents necessary to do so is always appreciated.

Sincerely,

Kean & Company, LLC

573.426.8297 573.426.3008 keanandcompany.com

704 West 2nd Street • Post Office Box 876 • Rolla, MO 65402

2016 1099 REPORTING GUIDANCE

As a general rule, any payee that doesn't have "Inc." or "Corp." at the end of its business name should be issued a 1099 if they were paid for services, fees or rent of \$600 or more in the calendar year. Additional examples are listed below.

You are not required to report business payments to corporations. Be careful, however, and DON'T consider Limited Liability Companies (LLCs) as corporations. There are two additional exemptions in item 1. C and 1. F below.

Who must report payments on 1099 forms?

- Any trade or business operating for gain or profit
- Any nonprofit organization
- Personal payments are NOT reportable

File Federal Form 1099-MISC if:

1. You paid at least \$600 (for IRS) in:
 - a. Rents
 - b. Services-including parts/materials to unincorporated businesses or individuals ie:
 - i. Payments to independent contractors who provide services for your business
 - ii. Payments for cleaning and repair & maintenance services
 - iii. Payments for design, marketing, or computer services
 - c. Attorney and legal fees, **EVEN** if they are paid to an incorporated entity
 - d. Prizes and awards
 - e. Other income including punitive damages and deceased employee's wages
 - f. Medical and health care payments, even if the recipient is a corporation
 - g. Cash payments for fish you purchase from anyone engaged in the trade of catching fish
2. You paid at least \$10 in royalties, broker payments in lieu of dividends or tax exempt interest
3. Fishing boat proceeds
4. Direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment
5. Director's fees and other remuneration, including payments made after retirement
6. You withheld any federal income tax under the backup withholding rules regardless of the amount

Payments not required to be reported on 1099-MISC:

1. Payments to a corporation except those noted above
2. Reimbursements to employees for business expense
3. Payments of rent to real estate agents
4. Wages paid to employees – (Use Federal Form W-2)
5. Military differential wage payments made to employees while on active duty – (Use Federal Form W-2)
6. Business travel allowances paid to employees –(may be included on W-2)
7. Scholarships or fellowship grants

File Federal Form 1099-INT if:

1. You paid interest from your trade or business in the amount of at least \$600 during the calendar year

File Federal Form 1099-S if:

1. You are required to report proceeds from a real estate transaction involving an exchange of money

NOTE: This document presents the most common reporting situations and should not be considered to be a complete set of 1099 instructions. For complete instructions, refer to the IRS General Instructions for Information Returns and Instructions for Form 1099-MISC documents which can be found at www.irs.gov.