



## **1099-MISC Reporting Requirement --IMPORTANT**

The Form 1099-MISC reporting rules apply to any business (whether a sole proprietorship, partnership, or corporation) that makes a reportable payment of fees, commissions, and other forms of compensation for services performed by non-employees in the course of its trade or business. Personal payments are not reportable. A payer is engaged in a trade or business if the payer operates for gain or profit. Taxpayers who actively participate in the management of their rental properties are considered to be in a trade or business for this purpose.

The basic requirements for reporting are:

- 1.) Payments of at least \$600 for services, rents, prize and awards, other income payments, medical and health care payments, crop insurance proceeds, and/or cash payments for fish, or,
- 2.) Gross royalty payments of \$10 or more.

*AND*

- 3.) Recipient is any individual or unincorporated entity including LLC's and partnerships (EXCEPTION: payments to corporations for legal or medical services still need to be reported on Form 1099-MISC).

When the tax identification number is not provided by the service-provider, the payment is subject to Federal backup withholding at 28% and California backup withholding at 7%.

A Form W-9 is to be filled out by any independent contractor engaged to provide services. We recommend having this form completed before payments are made to the service providers. To order blank forms, go to <http://www.irs.gov/businesses/page/0,,id=23108,00.html> or call 1-800-TAX-FORM (1-800-829-3676). For ease in filing at a reasonable cost, we recommend that you consider using the program at [www.filetaxes.com](http://www.filetaxes.com).

### **NEW THIS YEAR!!!**

**2011 forms ask if you are required to complete 1099's and whether you have prepared and filed them.**

In addition to 1099-MISC filing, the state of California still requires notification, on an annual basis, of all independent contractor arrangements. To meet this requirement you **MUST** file Form DE 542 within 20 days of entering into a contract with an independent contractor or making a payment of \$600 or more. This form has to be filled out **EVERY** year and should include any individuals for whom you will be providing a 1099-MISC for 2010.

It is recommended that the "ongoing" box be checked if you cannot determine when the independent contractor will reach the \$600 threshold in 2011. You may go to [http://edd.ca.gov/pdf\\_pub\\_ctr/de542.pdf](http://edd.ca.gov/pdf_pub_ctr/de542.pdf) to retrieve a blank form.

**Failure to file Form 1099 can result in the disallowance of deductions, assessment against the payer of the 28% and 7% backup withholding and penalties for failure to file.**

Should you have any questions, please contact our office at 858.481.7702