



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.

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 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