

Common Mistakes in 1099 Preparation and How to Fix Them

January 12, 2022

Questions and Answers

How do we report fellowships?

Typically, do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2.

Are there any situations where an employee might receive both a W2 and a 1099 from their employer?

There are two situations in which an independent contractor can receive both Forms 1099 and W2 from the same employer:

- The first is if the worker performed duties as an employee and independent contractor concurrently for the same employer. But to qualify for a 1099 the contractor function must be different from the employee's regular job. For example, an Office Manager also performs graphic design work for several local businesses after hours. The company contracts with the individual to create a new logo for the company.
- The other situation is where the worker held these two jobs at separate times during the same tax year for the same employer. For example, if an individual started working as an independent contractor and after a while was hired as a full-time employee.

A common mistake happens when an employer will want to pay a bonus with a vendor check as opposed to going through payroll and will issue a bonus through Form 1099. This is incorrect. If a bonus is paid with a vendor check it should be added to payroll as a manual check and appropriately taxed.

If we can't reach the vendor and we don't have TINs for vendors who need a 1099 what should we do?

The best course of action is to run TIN match. You register for TIN match as an employer, or you can ask us to help with the TIN matching. If you issue the 1099 without a TIN, you will receive an IRS notice instructing you to begin backup withholding.

Do Canadian vendors get a 1099?

- If the services are performed outside the United States, neither a 1099 nor a 1042-S is required.
- Nonemployee compensation paid to nonresident aliens for services performed in the United States is reported on Form 1042-S, Foreign Persons' U.S. Source Income Subject to Withholding.

Your flowchart says "over \$600", isn't it actually \$600 or more

Correct. The threshold is \$600 or more.

Deceased employee – so if payment is made in same year of death, it would be regular W-2? Your example is following year.

First, we would caution that if you are in this situation, please see the full IRS instructions. Below is a summary.

- If the payment is made to the estate or beneficiary, whether the payment is made in the year of death or after the year of death, you must also report it in box 3 of Form 1099-MISC, Miscellaneous Information, Use the payee's name and taxpayer identification number (TIN) of the payment recipient on Form 1099-MISC.
- If a payment is issued to the estate or a beneficiary and made in the same year the employee died, you report the payment to the beneficiary on 1099 Misc as stated above but you also withhold Social Security and Medicare and report the gross as Social Security and Medicare wages (W2 Box 3 and Box 5) but do not show the payment in Box 1 of the W2.
- If the payment is made in the year after death, you do not withhold any taxes and do not report it on the W2.

Does it matter if I send my lawyer a 1099NEC or a 1099MISC?

Use of the correct form is very important. You should report payments for legal services on form 1099 – NEC.

What is a taxable fringe benefit for a non-employee - an example please?

Some examples would be providing a company car to an independent contractor or offering a transportation allowance in the form of cash providing transit passes in excess of the IRS limit.

Any idea if the QuickBooks e-filing notifies states? I thought last year I had to mail hard copies to California.

We don't believe QuickBooks will notify states. We upload our QuickBooks 1099 files to Tax1099.com which does do the state filings.

Please make recommendations on e-file vendors if you file less than 250 forms. Is IRS FIRE system feasible? What's involved with IRS FIRE system?

We have had a very good experience using Tax1099. We do not have experience with IRS FIRE any other e-filing services and therefore cannot make any recommendations.

How would we know if TIN was incorrect at the time, we made payment? We wouldn't know until later when IRS notifies us of a name/tax ID mismatch, right?

- The only way to absolutely know if you have a correct TIN at the time of payment is to run a TIN matching upon receipt of invoice and wait for the results which typically come within 48 hours before issuing payment. Requesting a W9 from the vendor certainly minimizes this risk.
- If you have reason to believe that a certain vendor has provided incorrect information, you can request TIN match prior to issuing the 1099, you will receive a report within 2 days indicating any discrepancies.
- If you are notified of a discrepancy, you need to obtain the correct TIN or begin backup withholding before issuing any additional payments.

But is the IRS TIN Matching service free?

There is a nominal charge when you use the e-file service TIN matching.

If I make a payment to an agent on behalf of someone else, who gets the 1099?

Typically, the recipient gets the 1099.

We paid a contractor on behalf of another organization. Due to cash flow issues, the other organization could not pay the contractor for a few months but will reimburse us in the future for the payments. Who issues the 1099NEC for these payments?

If you as the Payer perform a management or oversight function or have an economic interest in the payment, you are responsible for issuing the 1099. The circumstances above indicate that you have an economic interest (assisting the other organization with their cash flow issues) so we would advise issuing the 1099 in this example.

If my organization pays a church or other non-profit institution for the use of its space on an occasional basis, do I have to file a 1099?

Payments to a tax-exempt organization including tax-exempt trusts (IRAs, HSAs, Archer MSAs, and Coverdell ESAs), the United States, a state, the District of Columbia, a U.S. possession, or a foreign government.

Is the IRS cracking down on Employer Tax ID number's that don't exactly match to the letter the Corp. name or name of business?

We do not have any information on whether the IRS has stepped up efforts to notify taxpayers of minor discrepancies regarding legal name, but we advise always using the correct legal name.

Just to confirm, a stipend paid to a contractor for telephone, internet, etc., at a set amount each month and where the contractor does not provide back-up (so it is not reimbursable) should be reported on the 1099 NEC?

If you are paying a set amount each month as opposed to reimbursing for actual expenses and the amount is above the IRS de minimis, I would advise including these amounts in the reportable amount on the 1099.

Do we have to report the amount for direct sales or just check the box?

Just check the box.