

Don't Be Left Holding the Tax Bag

Article Highlights:

- Paying Independent Contractors
- 1099-MISC Reporting Threshold
- Form W-9 Benefits
- Penalties
- Due Date

If you use independent contractors in your business and pay them \$600 or more during the calendar year, you are required to issue them a 1099-MISC after the close of the year. If you fail to do so, and your (if you operate as a Schedule C sole proprietor) or your business's income tax return is subsequently audited, you could lose the deduction for those payments and end up paying taxes on that income yourself, not to mention potential penalties.

A big tax trap for businesses is the \$600 reporting threshold. Say your business uses the services of an independent contractor early in the year at a cost below the \$600 threshold, and you don't bother to obtain the necessary reporting information from the contractor. If you use the contractor's services again later in the year and the combined total you've paid him or her exceeds the reporting threshold, you won't have the required reporting information.

Sorry to say, you may find it difficult to obtain that information after the fact, as not all self-employed individuals report all their income, and contractors may not be willing to give you their tax ID information once they've completed the work and gotten your payment for their services. So, it is good practice to collect that information upfront before engaging the contractor regardless of the amount.

The IRS provides Form [W-9](#) – Request for Taxpayer Identification Number and Certification – as a means for you to obtain the data required from your vendors in order to file the required [1099-MISC](#) forms after the close of the year. A completed W-9 also provides you with verification that you complied with the law should the vendor provide you with incorrect information.

In addition, there are substantial penalties if you fail to file a correct 1099-MISC by the due date and you cannot show reasonable cause for not filing. Generally, for 1099 forms due in 2017, the penalty is \$50 per 1099-MISC for not filing by the due date. The penalty increases to \$100 if the form is not filed within 30 days of the due date and \$260 after August 1, 2017. The maximum penalty for small businesses is \$532,000, so you can see this is not a reporting requirement to be taken lightly.

Oh, and by the way, the due date for filing 2016 Forms 1099-MISC with the IRS is January 31, 2017, when you are reporting nonemployee compensation (box 7 of the form), which includes the income paid to independent contractors. This due date is a month (two months if you've been filing your 1099s electronically) earlier than it has been in the past. So now both the government's copy and the one you provide the contractor are due by the same date.

If you have questions related to your 1099-MISC reporting requirements or need assistance filing the required forms after the end of the year, please give this office a call.