

Everything you need to know about Form 1099-NEC

Tax season is right around the corner. For business owners, the month of January is the time to prepare and send out tax information for employees and nonemployees that they paid during the prior tax year.

One form you'll need to be sending out soon (or receiving soon) is IRS form 1099-NEC. If that name doesn't sound familiar, don't worry. The IRS reintroduced the 1099-NEC form in 2020 to cover some forms of payments that were previously listed on form 1099-MISC. While 1099-NEC is newer, the information required on it should look familiar to you.

Here's what you need to know about the 1099-NEC form and how to fill it out and file it.

What is form 1099-NEC?

Business owners, as well as freelancers, are probably familiar with the 1099-MISC form. Previously, the 1099-MISC form was used to report income paid to independent contractors, vendors, and sole proprietors. However, form 1099-MISC has now been partially replaced by form 1099-NEC.

The 1099-NEC is now used to report non-employee compensations. Think of 1099-NEC forms as the nonemployee equivalent to form W-2. If you paid non-employees for work related to your business in 2021, you may need to give them a 1099-NEC.

What Counts As Nonemployee Compensation?

Non-employee compensation is compensation that has been paid to someone that is not a traditional employee on your company's payroll. This can include independent contractors, sole proprietors, and attorneys. Payments made to corporations, including LLCs, do not need to be reported on form 1099-NEC.

Per the [IRS](#), you must generally report a payment as non-employee compensation if the following four conditions are met:

- You made the payment to someone who is not your employee.
- You made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations).
- You made the payment to an individual, partnership, estate, or, in some cases, a corporation.
- You made payments to the payee of at least \$600 during the year.

Additionally, businesses are required to file a Form 1099-NEC if:

- They pay at least \$10 in royalties to an individual.
- The business withheld any federal income tax under the backup withholding rules regardless of the number of payments for the year to the non-employee.
- They made cash payments for fish (or other aquatic life) purchased from anyone engaged in the trade or business of catching fish.
- They made payments of legal fees to an attorney.

Who is required to file Form 1099-NEC?

Any business that made nonemployee compensation payments totaling \$600 or more to at least one payee or withheld federal income tax from a nonemployee's payment in 2021 will need to file form 1099-NEC (one per payee).

If you worked with any self-employed individuals including freelance labor, independent consultants, sole proprietorships, or independent attorneys you will likely need to send them a form 1099-NEC if the payments meet the four conditions discussed above. If you are unsure of whether the payments that you made meet the conditions set out by the IRS for non-employee compensation, speak with a tax professional. It is always better to be safe than sorry when it comes to the IRS.

Is Form 1099-MISC still used?

While you now need to use form 1099-NEC for non-employee compensation, form 1099-MISC does still have some uses.

Form 1099-MISC, Miscellaneous Income, should be filed for each person in the course of your business to whom you have paid at least \$600 in:

1. Rents (box 1).
2. Prizes and awards (box 3).
3. Other income payments (box 3).
4. Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3).
5. Any fishing boat proceeds (box 5).
6. Medical and health care payments (box 6).

7. Crop insurance proceeds (box 9).
8. Payments to an attorney (box 10).
9. Section 409A deferrals (box 12).
10. Nonqualified deferred compensation (box 14).

And just like form 1099-NEC, you will need to file Form 1099-MISC for each person that you have withheld any federal income tax under the backup withholding rules, even if they did not meet the \$600 threshold.

Form 1099 NEC filing requirements

Payers need to file form 1099-NEC by January 31 of each year. Beginning in tax year 2021, there are no longer automatic 30-day extensions to file. Extensions can be requested if the business meets certain hardship conditions. You may e-file or submit the forms on paper via the mail.

You can find the latest version of form 1099-NEC on the official [irs.gov](#) site [here](#). You will notice that the IRS publication PDF of the form has several copies. Here is the list of form 1099-NEC copies:

- Copy A: Federal Copy for the IRS
- Copy 1: State Tax Department Copy
- Copy B: Recipient Copy
- Copy C: Payer Copy
- Copy 2: State and Local Copies

If you are mailing these forms, always double-check that you are mailing the correct copy to the right recipient. While the different copies look almost the same, it is important to send the right version to the right destination.

What information needs to be included on Form 1099-NEC?

Form 1099-NEC is a fairly short form that resembles Form W-2. However, it does require a large amount of information. We'll walk you through each box on the 1099-NEC so that you can ensure that you don't overlook any important fields.

1. Payer's name and address.

The payer is your business. List your business name and registered address for your business.

2. Payer's TIN

This is the business' Taxpayer Identification Number (TIN). A Taxpayer Identification Number is an identification number used by the Internal Revenue Service in the administration of tax laws. It is issued either by the Social Security Administration or by the IRS. It is a nine-digit number. You may also know this as your Employer Identification Number (EIN). If you do not know your TIN, refer back to previous employer tax documents or last year's 1099s or W2 forms.

3. Recipient's TIN

This is the independent contractor's taxpayer identification number. In many cases, the recipient's TIN will be their social security number. Typically independent contractors will have their social security number (SSN) or an Individual Taxpayer Identification Number (ITIN) listed as their TIN.

You can find each non-employee's TIN on their W-9 form. When you first engage with a contractor or nonemployee, it is important to request that they fill out a W-9 form for your records. This form is the nonemployee equivalent to the W-4 form that you request employees to fill out upon hire.

4. Recipient's name and address

Here you will include the recipient's full legal name or registered business name and their address. This information can be found on Form W-9 as well.

5. Account number

This field only needs to be filled out if you gave the contractor a unique number for your records. If you did not, you may leave this box blank.

6. The total amount of non-employee compensation paid (Box 1)

Enter the total amount of nonemployee compensation paid. While this total typically comes from payments made to freelancers or contract labor it may also include:

- Commissions paid to nonemployee salespeople that are subject to repayment but not repaid during the year.
- Professional service fees, including fees paid to attorneys, accountants, designers, architects, contractors, or other professionals.
- Fees paid by one professional to another, including fee-splitting arrangements or referral fees.
- Oil and gas payments for a working interest, whether or not services are performed.
- Payments by attorneys to witnesses or experts in legal adjudication.
- Payment for services, including payments for parts or materials used to perform the services.
- Fish purchases made in cash .

- Expenses incurred for the use of an entertainment facility that you treat as compensation to a nonemployee.

The total amount listed in Box 1 should typically be \$600 or above unless royalties or backup withholdings are involved.

7. Payer made direct sales totaling \$5,000 or more of consumer products to the recipient for resale (Box 2)

The IRS instructions state that businesses can use either box 2 on Form 1099-NEC or box 7 on Form 1099-MISC to report any sales totaling \$5,000 or more of consumer products for resale, on a buy-sell, a deposit-commission, or other basis.

If you do wish to use form 1099-NEC to report direct sales, check box 2. If you did not make direct sales totaling \$5,000 or more of consumer products to the recipient for resale during the prior calendar year, then leave box 2 unchecked.

8. Box 3

You may skip over Box 3 as it is currently empty and reserved for future use in later form revisions.

9. Federal income tax withheld (Box 4)

Enter any backup withholdings. Most payments made to nonemployees do not include tax withholdings. Instead, the recipient will generally pay self-employment tax on the entire sum paid to them quarterly, rather than having withholdings taken out in each payment such as employees would. However, in some cases federal income tax is withheld from nonemployee compensation payouts. For example, persons who have not furnished their TINs to you are subject to withholding on payments required to be reported in box 1.

10. State income tax withheld (box 5)

These boxes are provided for your convenience only and need not be completed for the IRS. Use the state information boxes to report payments for up to two states. Keep the information for each state separated by the dash line. If you withheld state income tax on this payment, you may enter it in box 5.

If a state tax department requires that you send them a paper copy of this form, use Copy 1 to provide information to the state tax department. Give Copy 2 to the recipient for use in filing the recipient's state income tax return.

11. State/payer's state no. (Box 6)

Enter the abbreviated name of the state and the payer's state identification number. For example, enter CA for California.

12. State income (Box 7)

Enter the total amount of the state income paid to the recipient.

Tax Season Is Right Around The Corner

It's a new year — and a new tax season. Don't miss important due dates for filing your 1099-NEC and W2 forms. If you are running into difficulties this year, be sure to document these challenges and search for ways to

improve your process or record-keeping for next year.

Many small businesses that do not engage contractors frequently may find that they need to create a more thorough contractor onboarding process to ensure that all W9s are filled out and kept on record. Avoid waiting until you hit the \$600 threshold to request a W9. Waiting may make sense in theory if you are unsure that you will be paying a contractor over \$600, but it tends to lead to a scattered onboarding and recordkeeping process. You don't want to realize in January that you are missing a nonemployee payee's TIN.

Be sure to get your forms out on time. Remember that starting with tax year 2021, the IRS has eliminated the automatic 30-day extension. Form 1099-MISC is not due until later in the quarter (deadlines vary depending on whether you plan to mail the forms or e-file), so also be sure not to mix up the due dates. January 31st is right around the corner!