



January 4, 2021

Happy New Year!

As we start the New Year and begin to think about filing 2019 tax returns there is an issue that I think is truly important. This memo is going to anyone who has a Schedule C business as a self-employed individual or as a freelancer. **Please read this memo carefully as the forms to be filed have changed.**

For several years I have discussed with clients the new questions regarding 1099s that must be answered on business returns and business schedules. The government has been slowly increasing the penalties for 1099s. 1099s are commonly overlooked and for many people there is a lack of clarity about the rules. The penalties for overlooking 1099s can be substantial.

The filing **deadline is February 1, 2021.** Failure to meet this deadline could result in substantial penalties.

Our primary concern right now is payment of rent, and payment for any services. This applies to payments made in the ordinary course of your business. If the amount of payments during the year total \$600 or more (not per payment, but the total) and the payee is not a corporation a 1099 is required. This means that if you make a payment for services or for rent to any individual or entity other than a Corporation (Inc., Ltd., or Corp. in the entity's name) you are obligated to issue a 1099 if you hit \$600 for the year.

A common misconception is that if the payee has a business name, or is an LLC, that no 1099 is required. This is not true. The exception for 1099s is only for a corporation, not any business.

As is usual with tax law, there is an exception to the exception. In the case of an attorney or a law firm, a 1099 must be issued even if it is a corporation.

Commonly overlooked required 1099s include:

- Rent paid to any entity other than a corporation (a 1099 is required if rent is paid to an LLC, for a sublet from an individual, or for payment to an individual for shared office space.);
- Business consultants, including computer consultants and other professionals (such as pension service consultants, etc.);
- Office cleaners, assuming they are not a corporation or an employee;
- Supervisors or trainers for professionals (if you deduct payments for training or supervision not paid to a corporation);
- Attorneys; and
- The portion of your tax preparation fee that is related to and deducted on your business.

The 1099s are required to be sent both to the payee and to the government by **February 1, 2021.**

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There is a penalty for failure to furnish (to the payee) and another one for a failure to file (with the government). Each of these can be assessed for the same 1099. The penalty can be up to \$550 for failure to file and another \$550 for failure to furnish. These penalties can add up very quickly, and in certain circumstances there is no maximum on the total amount of penalty that can be assessed.

***New beginning with 2020 Form 1099s:*** *The 1099 form filings have changed slightly. Beginning with 2020 Form 1099s, payments for services will now be reported on **Form 1099-NEC**. Payments for rents remain on **Form 1099-MISC**.*

The representation letter that you sign with your tax preparation indicates whether you have 1099s required, and whether you are filing them, or requesting that we take care of them.

In performing due diligence required by the government, by the second or third year where you prepare them yourself, we are required to ask for a copy of the 1099s that have been filed. Failure to do so might make us subject to substantial penalties by the IRS.

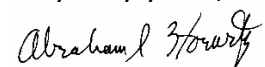
It is crucial that these 1099s be taken care of by the end of January.

Please be sure that you consider anyone you have paid in the course of your business during 2019 and make sure that any 1099s that are required are filed.

In order to assist you we have provided instructions on how to obtain the forms that you will need. Please see the attachment to this letter.

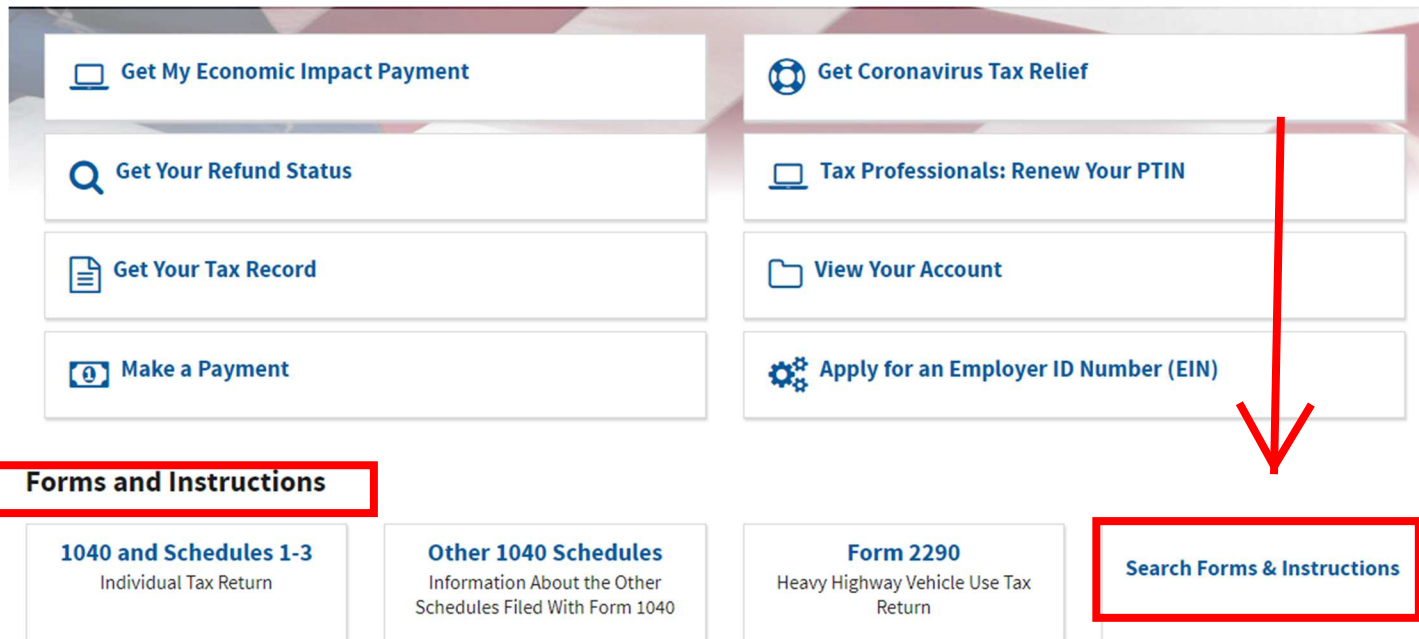
If you need our assistance with this, please contact us as soon as possible.

Very truly yours,



Abraham I. Horwitz, CPA

- Step 1 – Go to <https://www.irs.gov/>.
- Step 2 – Click on “Search Forms & Instructions”.



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- Step 5 – Scroll down the page until you find the ordering section.

**Information Returns** - Enter the quantity needed for each tax year in the quantity column(s)

Tax Year 2020 Quantity	Tax Year 2021 Quantity	Product	Title
<input type="text"/>	<input type="text"/>	Form W-2	Wage and Tax Statement
<input type="text"/>	<input type="text"/>	Form W-3	Transmittal of Wage and Tax Statements
<input type="text"/>	<input type="text"/>	Instruction W-2 & W-3	General Instructions for Forms W-2 and W-3
<input type="text"/>	<input type="text"/>	Form W-	American Samoa Wage and Tax

- Step 6 – Find the items that you will need and enter the quantity required in the “Tax Year 2020 Quantity”.

#	<input type="text"/>	Form 1096	Annual Summary and Transmittal of U.S. Information Returns
#	<input type="text"/>	Form 1099-MISC	Miscellaneous Income
#	<input type="text"/>	Inst. 1099-MISC & NEC	Instructions for Forms 1099-MISC and 1099-NEC
#	<input type="text"/>	Form 1099-NEC	Nonemployee Compensation

- Step 7 – Scroll to the bottom and click on the “Add to Cart” button and follow the rest of the instructions to checkout and complete the order.