Highlights and Quick References

Summary of 1099 Types and Related Forms

- **Attorney Payments:** Payments to attorneys, which are not solely for legal fees, are reportable in Box 14 of Form 1099-Misc.

- **Penalties:** The IRS assesses $30–$100 for each late/incorrectly filed Form 1099-Misc/W-2. This is not a new law, but the IRS is becoming more vigilant in assessing these penalties for revenue generation.

- **1099-MISC:** Reporting is required if $600 or more is paid to a business or individual, which is NOT a corporation, for non-employee compensation or rental fees. Note: You must report all payments to attorneys of $600 or more regardless of their corporate status.

- **1099-INT:** Reporting is required if $10 or more of interest is paid by your company to a recipient. The IRS does not recognize interest-free loans. You are exempt from filing Form 1099-INT if the interest is paid to a corporation or tax-exempt organization.

- **Form W-9:** Request for Taxpayer Identification Number and Certification. Please note that this form was revised in December 2011. The primary revision to the form related to reporting changes for single-member LLC entities. Both Form W-9 and a detailed letter pertaining to these revisions can be found on our website at www.pkkcpa.com. Click on "Client Resources" and review the documents identified as "Form W-9" and "Form W-9 and 1099-MISC Revisions", respectfully. When requested from your vendors, Form W-9 will provide you with the appropriate information to determine if Form 1099-MISC is required; as well as provide the information needed to prepare the form. If you would like our company to prepare the Forms 1099/1096 on your behalf, you may forward us a copy of Form W-9. However, you should maintain the original form in your company files.

- **2011 Filing Requirements to the State of Michigan and Michigan Cities:** When a federal Form 1099-MISC is required and the recipient resides and/or performs services in Michigan, you MUST file a copy of Form 1099-MISC with the State of Michigan. Furthermore, if the recipient resides and/or performs services in a Michigan City, which imposes a tax on its residents/businesses, you are also required to file a copy of Form 1099-MISC within that municipality. For additional 1099-MISC filing instructions with the State of Michigan, see page 4 of this newsletter, or go to the State of Michigan website: *www.michigan.gov/tax*. Click on "FAQ" located at the top of the site; select the category "Business Taxes"; then select "1099-Misc Filing Requirements" under "List of Topics". You will be able to read the Public Act mandating this filing requirement as well as additional information. Each municipality has its own filing requirements for Form 1099-MISC. We suggest you call the municipality directly to obtain specific filing instructions.

The following Michigan cities are taxing municipalities:

Albion, Battle Creek, Big Rapids, Detroit, Flint, Grand Rapids, Grayling, Hamtramck, Highland Park, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, Pontiac, Port Huron, Portland, Saginaw, Springfield, and Walker

Please contact our office if you have any questions or need instructions on how to file Forms 1099.

2011 Federal 1099 Information

Enclosed you will find information regarding the preparation of Forms 1099 for your business. Please be advised that there are federal, state and local 1099 filing requirements. We encourage you to call our office if you have any questions or need clarification regarding possible recipients. Our company offers many levels of service for the preparation of Forms 1099, starting with the simplest level of service preparation of the actual Forms 1099 with information you supply us. We also offer more in depth services, which may include a complete review of your accounting records, and/or contacting potential 1099 recipients to obtain the required information. We will be happy to accommodate the level of service you prefer. The actual number of Forms 1099 prepared on your behalf may vary considerably, depending on the results of our research. Please be advised that our billings are based on work performed and not solely on the finished product you may receive.

1099 Reporting

Note: There is a $30-$100 penalty for late and/or incorrect filing of each Form 1099. This law has always been in existence. However, as in past years the Internal Revenue Service is becoming more vigilant in assessing the penalties for revenue generation.

Who must file Form 1099?

In general, any business that pays another business or individual and meets the criteria listed below (including non-employee compensation, rents paid, and interest paid) must file Form 1099. Please note that this is NOT a comprehensive list of all Forms 1099 or requirements. Please contact our office if you have specific questions or concerns. You may also visit the Internal Revenue Service website at *www.irs.gov* for more information.

☐ **Form 1099-MISC.** This informational return has multiple uses. The three most common uses for our clients include:

Non-Employee Compensation - Form 1099-MISC is primarily used to report ALL non-employee compensation for services rendered to your trade or business for which you made payments, unless a corporation performed the services. (If the payments were for medical services or to attorneys, corporations would not be exempt from this filing.) Some examples may include:

- Accountant fees if the accountant or accountants are not a professional corporation (P.C.)
- Attorney fees **even if** the attorney or attorneys are a professional corporation (P.C.)
- Fees paid by one professional to another, such as fee splitting or referral fees
- Payments by attorneys to witnesses or experts in legal adjudication
- Payments for contractor services, including payment for parts or materials used to render the services, unless the person rendering the service is in the business of selling parts and materials
- Commissions paid to non-employee salespersons
- Payment to non-employee entertainers for services
- Exchanges for services (i.e., barter transactions)
- Directors' fees for non-employees

Attorneys – Payments made to attorneys in the course of your trade or business are and continue to be reportable in Box 7 of Form 1099-MISC. However, if you make a payment in the course of your trade or business to an attorney in connection with legal services and the attorney's fee is not reportable by you, the total amount paid to the attorney (gross proceeds) must be reported in Box 14. For example, an insurance company pays an attorney $100,000 to settle a claim. The attorney's fee is not reportable by the insurance company. Therefore, the insurance company must report $100,000 in Box 14 of Form 1099-MISC.

These rules apply (a) whether or not the legal services are provided to the payer, and (b) whether or not the attorney is the exclusive payee (e.g., the attorney's and claimant's names are on one check).

If you paid an attorney any amount from a trust or if it is indeterminable which portion paid to your attorney represents legal fees and which portion represents trust account holdings, please contact our office for further information.

Amount to report:	**Applies to $600 or more**
Due date to IRS:	**Postmarked by February 28, 2012**
Due date to recipient:	**Postmarked by January 31, 2012**

Rents Paid - Form 1099-MISC is used to report rents paid to any person or business that is not a corporation or real estate agent. Examples of types of rent may include but are not limited to:

- ☐ Office space rental
- ☐ Machine rental

Amount to report	**Applies to $600 or more**
Due date to IRS:	**Postmarked by February 28, 2012**
Due date to recipient:	**Postmarked by January 31, 2012**

- ❑ **Form 1099-INT**. This informational return is used to report interest paid by an individual or a company to the recipient of the interest. For example, either you (as owner of your company) or a friend makes a loan to the business. The IRS does NOT recognize interest-free loans. Therefore, we will need to calculate a reasonable interest amount on the outstanding balance of the loan throughout the year. This interest amount will be included into the income of the person making the loan.

Amount to report:	**Applies to $10 or more**
Due date to IRS:	**Postmarked by February 28, 2012**
Due date to recipient:	**Postmarked by January 31, 2012**

Note: If the interest is paid to a corporation or tax-exempt organization, you are exempt from filing Form 1099-INT.

State 1099 Information for 2011

- 1099-MISC forms for services performed in the State of Michigan, regardless of the state of residence of the payee, must be filed with the State of Michigan.

- File Copy 1 of Form 1099-MISC with Form 165, Annual Return for Sales, Use and Withholding Taxes, along with any paper W-2s.

- If you are not registered to pay taxes to the State of Michigan and do not use Form 165 or if you have already mailed your annual Form 165 to the State, then send Copy 1 of Form 1099-MISC with a summary letter. Include in the letter your company name, address, Federal Employer's Identification Number (FEIN) or Treasury-assigned account number, total number of Form 1099-MISC, Copy 1, and the total amount of the forms enclosed and mail to:

Michigan Department of Treasury
Sales, Use and Whithholding
Lansing, MI 48930

- If you wish, instead of filing Form 1099-MISC, Copy 1 on paper, you may file the forms via magnetic media (floppy disks or 3480 or 3490 tape cartridges). (Electronic filing is not available at this time.) If you choose to file Form 1099-MISC, Copy 1 using magnetic media, be sure to mail your paper Form 165 separately to the address on the form. Send the magnetic media, along with a copy of the Transmittal for Magnetic Media Reporting of W-2s, W-2Gs, and 1099s (Form 447), to:

Michigan Department of Treasury
Return Processing Division
Magnetic Media Unit – SUW
Lansing, MI 48930

- Submissions of Form 1099-MISC, Copy 1 must be postmarked by **February 28, 2012**.

Additional information is available at *www.michigan.gov/taxes*. Click on "FAQ" located at the top of the site; choose the "Business Taxes" section; then select "1099-Misc Filing Requirements" under "List of Topics". You will be able to read the Public Act mandating this filing requirement as well as additional information. Each municipality has its own filing requirements for Form 1099-MISC. We suggest that you call the municipality directly to obtain specific filing instructions.

Form 1099 Reporting Summary

We have only identified the most common reasons our clients need to file Forms 1099. The laws regarding 1099 filing requirements may differ depending on your company's situation. Therefore, we encourage you to contact our office if you have any questions pertaining to your company's filing requirements.

If we prepared your company's 1099 forms last year and we have complete 2011 information in our files, we will prepare the forms for the current year unless you notify us otherwise. Please review your records and identify possible recipients. This is most helpful when there is a new 1099 recipient that did not exist in the prior year. Any information you can provide such as recipient name, address, social security or EIN number, type of 1099, and total amount paid, would be greatly appreciated. Please contact your designated accountant with information about possible recipients.

If you need Form W-9, please visit the Internal Revenue Service website at *www.irs.gov/pub/irs-pdf/fw9.pdf* to obtain the form and the instructions. Form W-9 is also available on our website at *www.pkkcpa.com* under "Client Resources". We recommend this form be completed each time you authorize payment to a new vendor. When completed properly, Form W-9 will provide all the necessary information needed to determine if a Form 1099 needs to be issued at years end, as well as the information that must be included to properly file the form.

If our office did not prepare Forms 1099 for your company last year and you would like us to prepare them for the current year, please call our office and we will provide you with detailed instructions on how to proceed.