1099s: Out of the Holding Tank

You pay YOUR taxes, I pay MY taxes, but does everyone else out there pay THEIR taxes?

Well, if you ever feel like "Judge Amy" when you have to determine who gets 1099s and who doesn't, just think of it this way: you're doing your part in the legal system to be sure that everyone else pays their "fair share" of the tax burden. My personal philosophy is that if everyone pays taxes on their actual earnings, then each of us might be able to pay a little less! And that's what 1099s are all about; tracking payments to people who don't receive W-2s but who are, typically, subject to self-employment and/or income taxes.

Yes, we're quickly approaching one of our favorite times of the year when we get to prepare the 1099s that are due to our vendors by January 31st and the forms that are due to the IRS by February 28th. I'll bet you're just thinking to yourself "Woohoo! I can hardly wait! Party time!" Well, even if that's stretching the truth a bit, the good news is that if you do a bit of planning and information gathering in December, well BEFORE the first deadline of January 31, you'll be able to accomplish the chore with minimal stress and inconvenience this year.

Here are the basic steps to follow:

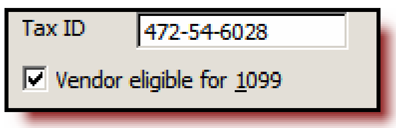
1. **Get the 1099-MISC rules directly from the IRS** – and read them thoroughly. It's definitely worth the 20-30 minutes that it will take to review the critical points.
   - Go to the following IRS web site (http://www.irs.gov/pub/irs-pdf/i1099msc.pdf). This will take you to a .pdf (Adobe printable) version of the 2005 instructions for 1099-MISC forms (8 pages).
   - These instructions will, in turn, refer you to an additional set of instructions called the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G. Here is the link: http://www.irs.gov/pub/irs-pdf/i1099.pdf.
     Warning: This file is 93 pages long so you will want to review it carefully to determine which pages you will select to print!
   - Use a highlighter to emphasize the sections from both sets of instructions that apply to your company. Note which types of payments go to which "boxes" on the form (e.g., Rental payments go to Box 1 on the 1099-MISC form, while non-employee compensation is reported in Box 7).

2. **Review your QuickBooks vendor list** to determine exactly WHO should receive a form 1099-MISC. Use the guidelines from the IRS publication, and look for:
   - **Non-corporate entities** to whom you believe your company has paid more than $600 in non-employee compensation in 2005 (you don't need to include the cost of products purchased). NOTE: Non-corporate entities include sole proprietors, partnerships, or limited liability companies (LLCs).
   - **Certain corporate entities** may also be eligible to receive 1099-MISC statements. For example, you must send a form 1099-MISC to attorneys and legal firms who have received more than $600, even if their firm is incorporated.
   - Any vendor for whom you have performed **backup withholding** (e.g., if a vendor did not provide you with a Taxpayer ID number, or TIN, you are required to withhold, and submit 28% of their pay as Federal Income Tax backup withholding.)
   - **If you have doubts** regarding whether a firm should receive a 1099 or not, you can:

    - ✓ Ask them to complete a form W-9 (available at http://www.irs.gov/pub/irs-pdf/fw9.pdf). Note: If you give this link to the vendor, they can complete the form online, print it, and send it to you. You will then have proof that you have performed your due diligence in determining whether they should, or should not, receive a 1099-MISC.
    - ✓ A general rule of thumb to follow is "If in doubt, send it out" or "Better too many 1099s sent than too few." And if anyone strenuously denies that they should not have received one, you can go back to the W-9 option. If they qualify to be excluded, you can delete their 1099 from the final submission to the IRS.

3. **Order your forms early** so that you aren't caught at the last minute without the proper forms. If you have a laser or ink jet printer, you will need to purchase special 1099 forms. Be sure to get the kind especially designed to feed individual sheets through laser or ink jet printers (vs. the ones with several copies joined into one form for impact printers). **Don't wait until the last minute to do this! We can order these forms and envelopes for you if you wish. Determine approximately how many you will need and just contact us at 866-244-2228 (toll free).**

4. **Determine that you have the required vendor information for each 1099 vendor**. The vendor record will need to include the following:
    - A current, correct, complete address (first tab in the vendor record).
    - Their Taxpayer ID number (social security number or Employer ID number) and the "Vendor eligible for 1099" box checked as follows:



    - If you don't have that information, you will want to immediately begin the process of obtaining that information.

    TIP #1: I advise my clients to establish a firm policy of always obtaining the critical 1099 information as a requirement BEFORE the first check is issued to a vendor while you still have some financial leverage. If they are unwilling to provide their TIN, please see the previously mentioned 28% backup withholding requirement. Of course backup withholding would require that you file another form (Form 945, Annual Return of Withheld Federal Income Tax), so it's better to extract the correct information right up front!

    TIP #2: In QuickBooks® 2005 and 2006, when you are in the Vendor List window, you can right click and choose "Customize columns". From the popup window, you can choose "Eligible for 1099" and then "Add" to the Chosen Columns side of the window. Select that line in the Chosen Columns and move it in the column order as you see fit. Click OK and whenever you are in the Vendor List, you will be able to see exactly which vendors are 1099 vendors.

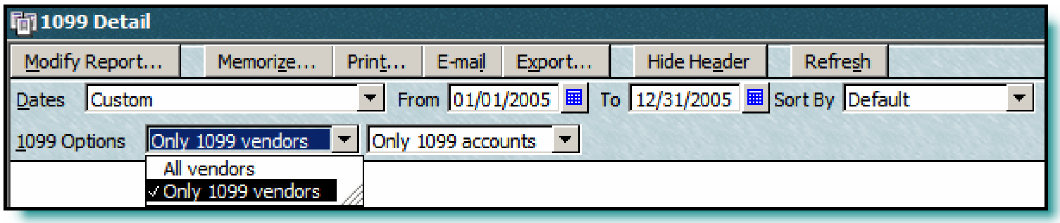
5. **Set your 1099 Company Preferences**
    - Sign in as the Administrator and choose Single User mode
    - Go to your QuickBooks® Preferences, and select the "Tax: 1099" preference.
    - Select the Company Preferences tab, and click the "YES" button in response to the question: "Do you file 1099-MISC forms?"
    - You will see three columns which are used as follows:
        - ✓ 1099 Category: Shows the 1099 category and box number where the results will display.
        - ✓ Threshold: Displays the minimum amount you must report to the IRS. For example, if the threshold is $600, you would only prepare 1099s for vendors who have received more than that amount during that fiscal year.
        - ✓ Account (middle column): Allows you to select one or more accounts to be tracked for that 1099 category. To select more than one account, click on the

"Selected Accounts" choice; a special drop down menu will appear, and you can select all accounts that are applicable to that category.
Note: An account can be "attached" to only one of the 1099 categories.

- When you have finished, click OK in the Preferences window.

6. Create reports to preliminarily check your results.

- From the reports drop down menu, select **Vendors & Payables**, then 1099 Detail.
- Set the appropriate date parameters ("This Calendar Year-to-date" if it's before the end of the year, or "Last Calendar Year" if it's January.)
- AFTER the report runs, you will see "1099 Options" choices at the top of the screen as follows:



- Choose **All vendors** the first time you run the report, and review the results on the screen.
  - ✓ 1099 vendors will show their tax ID number while non-1099 vendors will say "(no tax ID on file)".
  - ✓ Look for vendors who should be classified as 1099 vendors but who are not listed as such.
  - ✓ Look at the results for 1099 vendors to be sure that the detailed transactions accurately reflect what should show on their 1099s.
  - ✓ Make notes and corrections as appropriate.

WARNING: Social Security numbers and Employer ID numbers should be appropriately safeguarded in both your QuickBooks® file and on any paper copies of reports. Control this information as if it was your OWN social security or Federal ID number. You would NOT want to be the person who, through lack of attention, became responsible for an incident of identity theft!

  - ✓ Re-run the report selecting "Only 1099 vendors" and check it for accuracy. Note that the report will show only amounts actually **paid** within the reporting period.

7. When it's time to actually prepare the 1099-MISC forms in January:

- From the **Vendors** menu, select **Print 1099s/1096.**
- You will be taken to the **1099 & 1096 Wizard** window.
- Select **Print 1099s**, and then confirm that the date range shown is **Last Calendar Year.** Click **OK.**
- Click on all of the vendors for which you will be printing 1099s (i.e., you will probably want to click on the **Select All** button.)
- Click on the **Preview 1099** button, and confirm that the information is properly presented for each vendor (name, address, etc.).
- Click **Cancel** to return to the previous screen for a print alignment test.
  - ✓ Select only two vendors and then click the **Print 1099** button.
  - ✓ Select the correct printer and choose to print only one copy at this time.
  - ✓ DO NOT LOAD YOUR 1099 forms into the printer yet! Instead, print your sample to blank paper.

- ✓ Place your plain paper sample against the printed form and hold it up to a strong light source to see if your information is lining up correctly on the form. If not, use the ALIGN button to see the Fine Alignment screen where you can move the text in 1/100th inch increments up, down, left, or right. Continue to print samples from this window until you are satisfied with the results.
- ✓ When you believe your data is aligned properly, select one of the 1099 forms that you won't need, and print your sample on it. If everything lines up correctly, you are ready to move to the next stage of testing.

- A second test on plain paper before final printing:
    - ✓ Go back to the screen that shows all 1099 vendors and click on the first four vendors, and then on the **Print 1099** button.
    - ✓ Select the correct printer and choose "2" as the number of copies that you will need to print for each vendor.
    - ✓ Review the way that the sheets print and collate. E.g., In my printer, page one shows the first two vendors, and page two shows the next two vendors, page three shows the first two vendors and page four shows the next two vendors. If this is the way your machine is printing, then you will need to collate your 1099 forms to print in the same way. For instance, if you have 19 1099s to print you will need 10 sheets of the first form (2 per page), followed by 10 sheets of the second form, followed by 10 sheets of the third form, etc.
    - ✓ NOTE: I know that this seems like a lot of print-testing, but a few minutes spent at this stage will save lots of time, frustration, and re-ordering of ruined forms, etc. I speak from experience on this one!
- Now it's time to print your 1099s! After successfully printing them, segregate and HOLD your copy and the IRS copy, and then split and mail the remaining statement copies to your vendor recipients before January 31.

8. The home stretch – coming up on February 28th OR "You're almost there,…hang in there baby!"

- Hold the IRS and company copies in the office. Make a large reminder note for yourself to return to 1099 territory again during the last week of February.
- If vendors point out any errors before the final forms are due to the IRS on February 28, make the changes and re-print those specific 1099s (remember to reprint both of the vendors on any corrected pages).
- A day or two before February 28, you will use QuickBooks® to prepare the 1096 form that accompanies the 1099-MISC. (Don't do this earlier, as sometimes the 1099 forms packages contain only the exact number of 1096 forms that you need, and if you had to make corrections, then a 1096 printed earlier would no longer be accurate!)
    - ✓ Go back to the 1099/1096 screen that you were previously working in and click on **Select All** to include all listed vendors.
    - ✓ Place your 1096 forms in the printer
    - ✓ Click on **Print 1096**, and in the subsequent window enter the **Contact name**, then click on **OK**.
    - ✓ At the **Print 1096** window, select the correct printer and enter the number of copies to print (probably 2 – One for you and one for the IRS).
    - ✓ Review, sign, date and mail the 1096 and 1099s to the IRS in accordance with the attached instructions.
    - ✓ File your company copies in a secure location.

Congratulations! You are now "out of the 1099 Holding Tank"! You can pat yourself on the back for a job accurately, conscientiously, and thoroughly completed. And you've contributed to the legality of your company and the financial stability of our economy to boot!

You've done your duty and served your country well.

Info Plus Accounting offers a wide variety of on-site and/or Internet training, accounting, and support services and products for your QuickBooks accounting and software needs.

For assistance with any of your accounting or QuickBooks® software issues or questions, please contact us toll-free at (866) 244-2228 for an appointment.