

# WHEN DOES MY BUSINESS NEED TO ISSUE A 1099-NEC?



As a business owner, financial responsibilities can be complex, especially when it comes to tax obligations. One crucial aspect that often surfaces is dealing with 1099s. In this quick guide, we'll discuss the common scenarios in which a 1099-NEC might be issued:

- **Independent Contractors:** Businesses must issue a 1099-NEC to independent contractors, freelancers, or other self-employed individuals who have provided services and received \$600 or more in compensation during the tax year.
- **Freelancers and Consultants:** If you hire freelancers or consultants for services and their total compensation reaches or exceeds \$600 within the tax year, you are required to issue a 1099-NEC.
- **Rent Payments for Business Purposes:** If your business pays \$600 or more in rent to an individual or entity during the tax year, you may need to issue a 1099-NEC.
- **You don't have to issue 1099-NEC forms to C-Corporations and S-Corporations.** In general, you don't have to issue 1099-NEC forms to C Corporations and S Corporations. But there are some exceptions, including:
  - Medical and health care payments
  - Payments to an attorney
  - Substitute payments in lieu of dividends or tax-exempt interest
- **Payments to 1099 vendors made via credit card, debit card, or third-party system,** such as PayPal, are excluded from the 1099-MISC and 1099-NEC calculations. This is because the financial institution reports these payments, so you don't have to.

It's essential to keep accurate records of payments made and consult IRS guidelines to determine when 1099 reporting is required. Failure to issue the required 1099 forms may result in penalties.

And here's a final tip: Always get the W-9 before you issue payments to any vendor who may be required to get a 1099-NEC. Less-reputable vendors might not be around when you need their information at tax time.

Need help getting your books in order and organized for this tax season? We can help! Schedule a call today.