



WALLETKEEPING'S

Guide to 1099s

Hey, it's Sara!

Whether it's your first year filing 1099s or you're a seasoned pro, it's always a good idea to refresh your knowledge and ensure you're keeping up with the ever-changing requirements.



SO, WHAT IS A 1099?

Simply put, a 1099 is a form used to report income to the IRS. Each type of 1099 reports a different type of income. For the purposes of this guide, we'll be focusing on the **1099-NEC: Nonemployee Compensation**. A 1099-NEC reports payments for services from a non-employee that total over \$600.

If you're a small business owner who works with contractors (or you are a contractor yourself), you'll want to keep reading!



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Before worrying about 1099s, you need a W-9!

Officially called the “Request for Taxpayer Identification Number and Certification”, this form should be filled out by your contractor **before** you pay them. Due to the sensitive information on these forms, it’s important to keep them in a secure location in your business’s records.

What if my contractor doesn’t want to provide a W-9?

This is a red flag when hiring a contractor! Without the information from a W-9, you cannot determine whether you need to withhold backup taxes, and your business could face penalties for filing an inaccurate or incomplete 1099.

PRO TIP:

You can find a blank Form W-9 at IRS.gov by clicking “Find forms & instructions” and searching “W-9”.

What's important on a Form W-9?

RECIPIENT'S NAME & ADDRESS

This information helps ensure the payments are filed for the correct legal entity.

FEDERAL TAX CLASSIFICATION

This information lets you know if the entity you're paying is an individual, a corporation, a partnership, a trust/estate, or an LLC and how they should be treated for tax purposes.

TAXPAYER IDENTIFICATION NUMBER (TIN)

Depending on the type of entity your contractor is, the TIN could be their SSN or EIN.

CERTIFICATION

In this section, your contractor states that the information they've provided is correct and that they are not subject to backup withholding.

IF THE ANSWER IS YES TO ALL OF THESE...

Was this contractor:

- ☐ Someone you paid \$600 or more to in 2024
- ☐ **Not** paid by a payment settlement entity (like a credit card, PayPal)
- ☐ Paid for services that had a business purpose (not personal services)
- ☐ **Not** an employee on your payroll
- ☐ **Not** taxed as a corporation*
*special rules apply to payments to attorneys
- ☐ A U.S. citizen, U.S. resident alien, or U.S.-based entity

YOU PROBABLY NEED TO FILE A 1099-NEC.

Steps to File a 1099-NEC

GATHER ALL INFORMATION

Aside from your contractor's Form W-9, which will have their business information, TIN, and entity type, you'll also need to know the amount you've paid this contractor in 2024.

FILL OUT + FILE YOUR 1099s

Determine which method you'd prefer to file your 1099s. If you're filing more than 10 information returns, the IRS requires that you e-file. Fill out each section of the 1099-NEC (Reminder: your business is the payer and the contractor is the recipient). The deadline to e-file is January 31st.

FURNISH TO RECIPIENT

In addition to filing with the IRS, you need to provide a copy of the 1099 to your contractor and the state (if applicable).



COMMON METHODS TO File Your 1099s

HIRE A PROFESSIONAL

If you don't feel comfortable or don't have the time to file your 1099s, hire a professional like your tax accountant or bookkeeper to help you!



PAYROLL/BOOKKEEPING SERVICE

If you track payments through a bookkeeping software or use a payroll service, check to see whether either of these offers a filing option.



OTHER ONLINE FILING METHODS

You can also file for free using the IRS's IRIS Taxpayer Portal or use a paid option like Tax1099.com or Track1099.com.



What happens if I don't file?

30 DAYS LATE

If you haven't filed your 1099-NEC and you're anywhere up to 30 days past the deadline, you may be subject to a \$60 penalty (and interest) for each return and payee statement you don't file.

31 DAYS THROUGH AUGUST 1

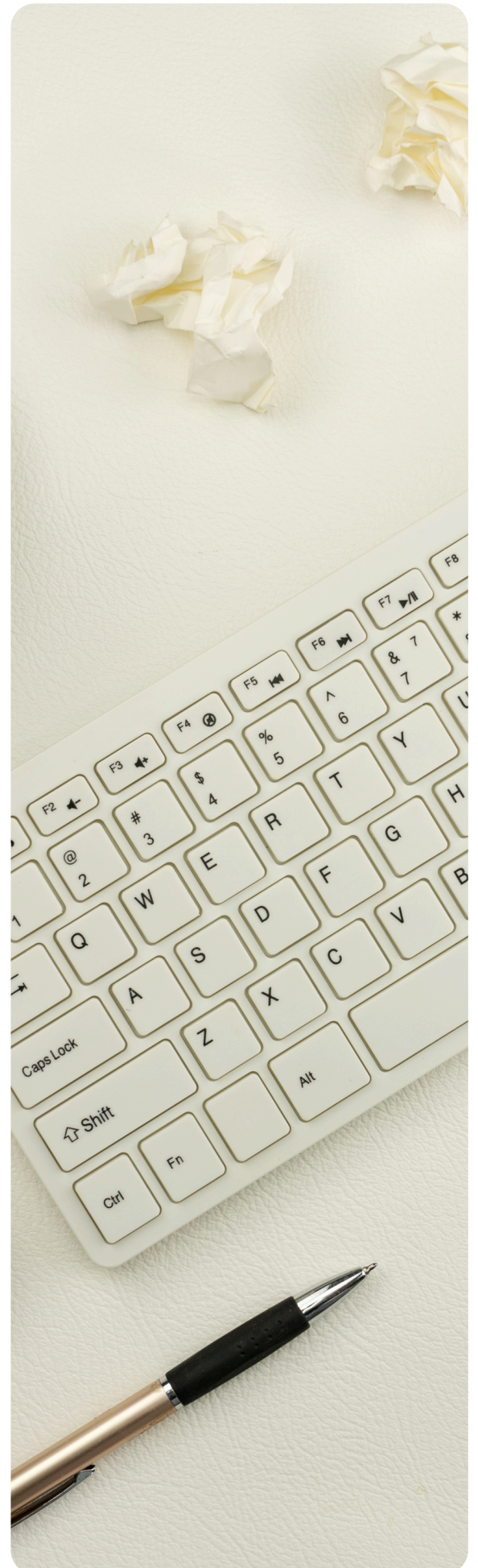
The penalty per return/payee statement increases to \$130 in 2025.

AFTER AUGUST 1 OR NOT FILED

The penalty per return/payee statement increases to \$330 in 2025.

INTENTIONAL DISREGARD

If you are found to have intentionally disregarded filing your information returns, you may be subject to a \$660 penalty per return in 2025 with no maximum penalty!



CLEARING UP COMMON 1099

Misconceptions

Do I have to report income even if I don't receive a 1099 showing it?

Yes! Whether you receive a 1099 or not, if you receive taxable income it should be reported on your tax return.

Should I receive/send a 1099 for personal payments?

No! Per the IRS, money received from your friends and family as a gift or repayment of a personal expense is not taxable income. You should note this as personal in payment apps whenever possible.

Do I have to pay taxes on the full amount of income shown on my 1099?

Not necessarily! You'll owe taxes based on your taxable income. This may be lower than the amount shown on your 1099 after subtracting your qualifying business expenses.



What if I paid by credit card?

Here's the deal: 1099-Ks are issued from what's called a payment settlement entity (PSE). For example, a PSE processes payments made by a card transaction or through a service like Venmo or PayPal.

Per the IRS, some types of transactions that might trigger a 1099-K are:

- Direct payments from a credit or bank card for selling goods or providing services
- Payments received through a payment app or online marketplace for goods or services provided, or property you rented
- Payments from the regular sale of personal items (like clothing or furniture)

Do's

Verify that you have a signed W-9 before you pay a new contractor

Furnish a copy of the payee statement to your contractor

E-file your 1099s if you have to file 10 or more information returns (and consider e-filing even if you aren't required to!)

Check the tax classification of your contractor prior to filing a 1099 for them

Don'ts

Issue a 1099 to a contractor that you pay via credit card

Forget to report taxable income if you don't receive a 1099 for it

Print a 1099 Copy A form from the IRS website, it must be ordered from the IRS as a scannable copy

Forget to check and comply with your state's filing requirements



Let's Connect!

I'm passionate about helping small business owners make sense of their finances, bringing a level of organization and attention that makes all the difference. I'm here to ensure everything is in order, so you can focus on what you do best.

WWW.WALLETKEEPING.COM