

Issuing IRS Form 1099-Misc and Computing The Backup Federal Withholding

This is a brief summary of some of the IRS rules and regulations pertaining to payments made by your organization to vendors.

A Form 1099-Misc must be issued to a vendor that you have paid, during the calendar year, a total of \$600.00 or more for rent or services (including labor, parts and materials), when the payee is not an employee. This would also include entertainment services such as bands and DJ's.

The form does not need to be issued if the payee is a corporation, with one exception: payments made to an attorney. All attorneys, even corporations, must receive a Form 1099-Misc if the total amount paid is \$600.00 or more for the year. In order to determine the type of legal entity of the vendor, and to obtain their full name, address and tax identification number, a Form W-9 is required to be completed by the vendor in **advance** of the first payment made to them.

If the payee refuses to provide your organization with a tax identification number on Form W-9, you are required to withhold backup federal withholding at a rate of 28% for 2015. Backup withholding is reported on Form 945, Annual Return of Withheld Federal Income Tax, which is generally due January 31 for the preceding calendar year. The backup withholding is remitted to the Internal Revenue Service through the EFTPS electronic payment system.

The IRS uses the Form 1099-Misc for matching purposes to insure that all taxable income is being reported on the vendor's income tax return.

Form 1099-Misc is to be issued to the payee by January 31 for the preceding calendar year. A copy of the form should be mailed to the IRS by February 28th along with a transmittal Form 1096. The current penalty for late filing and not issuing the Forms 1099-Misc can be up to \$100.00 per form.

If you do not have the proper Forms W-9 on file for potential vendors, and a 1099-Misc has not been issued, the IRS will assess 28% backup withholding on payments made to vendors who should have received a Form 1099-Misc.