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→ IRS Alert: Certain Form 1099 Reporting Rules Have Changed for 2011

In a continuing effort to make income reporting transparent, the IRS is adding Form 1099 questions on all tax returns (including Schedule C, E, and F of form 1040.) Even though this requirement also applies to non-compensatory income such as interest, dividends, royalties, and certain real estate transactions it is most relevant to non-employee/ independent subcontractor income. If you have questions as to whether or not your service provider is an employee or an independent consultant, please click the following link to our website for more information regarding this topic - http://www.aafcpa.com/FAQ_1.htm

What does all this mean for 2011?

All entities (such as partnerships, limited liability companies, and corporations) and individuals filing Schedule C, E or F, will be required to disclose whether they are required to provide 1099's to payees, and whether or not these 1099's were actually filed.

You should provide Form "1099-MISC" to any non-corporate entity you paid \$600 or more for services (including parts and materials), rents, commissions, royalties (\$10 or more) during the year for your trade or business. These forms should be provided to individuals/sole proprietors, partnerships, and limited liability companies (LLC's) but are not applicable to corporations (unless the corporation is providing legal services.)



These forms should be provided to the payee by January 31, 2012. A copy should also be provided to the IRS by February 28, 2012 (April 2, 2012 if filing the forms electronically.)

New Form 1099-K:

Effective in 2011, debit/credit card merchants and certain third party payment service providers will be required to issue *Form 1099-K: Merchant Card and Third Party Network Payments* to a business where electronic payments are made. An example of this would be when a business uses "PayPal" to receive payment for services/products they sell over the internet or when payments are processed through a credit card company. The credit card company/third party payor (i.e. PayPal) would be required to provide Form 1099-K to the business.

The 1099-K reports the gross proceeds of the transactions so the payee will need to maintain good records to separately report the related transaction fees withheld by the third party service provider. For 2012 reporting purposes, the IRS has added a revenue line to match to the Form 1099-K. This line is currently listed on certain 2011 tax returns but will not be applicable until 2012.

Sincerely,

The Alexander, Aronson, Finning & Co. Team