



Balanced Bookkeeping LLC

Bridging the gap between small business owner and CPA.

1099-NEC or 1099-MISC? What's Changed — and Why It Matters

In a move that will impact business owners and tax professionals across the nation, the IRS has released the 2020 Form 1099-NEC. The new form replaces Form 1099-MISC for reporting nonemployee compensation (in Box 7), shifting the role of the 1099-MISC for reporting all other types of compensation. As a result of the new 1099-NEC and redesigned 1099-MISC, the overall process for reporting nonemployee compensation is changing for the 2020 tax year.

2020 Instructions for Form 1099-NEC

The new 1099-NEC (NEC stands for Non-Employee Compensation) is based on an old form that has been out of use since 1982. To use the “reinstated” 1099-NEC properly, you need to understand what is considered nonemployee compensation. Previously reported on Box 7 of the 1099-MISC, the new 1099-NEC will capture any payments to nonemployee service providers, such as independent contractors, freelancers, vendors, consultants and other self-employed individuals (commonly referred to as 1099 workers).

According to the IRS, a combination of these four conditions distinguishes a reportable payment:

- ✓ It is made to someone who is not your employee.
- ✓ It is made for services in the course of your trade or business.
- ✓ It was made to an individual, partnership, estate, or, in some cases, a corporation.
- ✓ Payments were \$600 or more for the calendar year.

Employers are required to furnish Form 1099-NEC to the payee and file with the IRS by January 31 (February 1 in 2021, since January 31 falls on a Sunday).

Typical Examples:

Professional service fees to attorneys (including law firms established as corporations), accountants and architects

Fees paid by one professional to another

Payments for services, including payment for parts or materials used to perform the services if they were incidental.

Commissions paid to nonemployee salespeople not repaid during the year

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