

Tips on Independent Contractor Tax Compliance

By Joseph M. Donegan on February 27th, 2012 Posted in Form 1099, Independent Contractor, Taxes

While there are many issues connected with protecting the employer in dealing with independent contractors, a few important issues exist concerning the issuance of 1099s. As noted by the American Payroll Association (APA) in their January press release, below are the key points of which every employer should take note:

1. Form 1099-MISC is required for noncorporate service providers. Employers must provide a Form 1099-MISC by January 31st to any noncorporate service provider who was paid at least \$600 for services during the prior year. Employers must also provide Form 1099-MISC to sole proprietorships, partnerships, attorneys, and medical service providers who do business as corporations.

2. Form 1099-MISC not required if contractor was paid electronically. There is no requirement to send a Form 1099-MISC to any contractor that was paid electronically, such as by credit card, debit card, PayPal, or gift card. The bank or credit card company that made the actual payment to the contractor will send the contractor Form 1099-K.

3. Pilot program for truncation of TIN numbers has been extended. The IRS pilot program that allows for the truncation of taxpayer identification numbers (TINs) on 1099 forms has been extended to include 1099s through the 2012 calendar year (filed in 2013). This means that the first five digits of the TIN can be replaced with asterisks or Xs on the payees' paper copies of Form 1099, but copies filed with the IRS must have their full TIN.

4. Better safe than sorry. Employers who are unsure whether a Form 1099-MISC is required should go ahead and send one. Employers cannot go wrong by sending 1099s that are not required, but could be subject to penalties if they do not send all service providers their Form 1099.

5. File forms on time. This year paper copies of Forms 1099-MISC must be mailed to the IRS no later than February 28, 2012. Forms 1099-MISC filed electronically must be submitted to the IRS by April 2, 2012.