

As Filing Deadlines Near, Be Aware of 2020 Changes to Form 1099-MISC and the New Form 1099-NEC

The IRS issued two new forms for the 2020 tax year – Form 1099-NEC and a revised Form 1099-MISC. The newly reintroduced Form 1099-NEC is used to report payments for nonemployee compensation (NEC) that were previously reported on box 7 of the Form 1099-MISC.

Background

The Protecting Americans from Tax Hikes Act (PATH Act) P.L. 114-113 enacted in 2017 requires a payor who reports nonemployee compensation to file a 1099 by January 31. However, if a payor was only reporting payments other than non-employee compensation, then the payor had until March 31 to file Form 1099-MISC.

The IRS reported confusion among taxpayers regarding these deadlines. To alleviate the confusion, the IRS re-issued Form 1099-NEC and revised Form 1099-MISC. The Form 1099-NEC is required to be filed for payors who report nonemployee compensation. The Form 1099-NEC is due on or before February 1, 2021, and there is no automatic extension.

Form 1099-MISC is used to report payments that are not nonemployee compensation. Form 1099-MISC is due on March 1, 2021, if filed by paper, or March 31, 2021, if electronically filed.

The instructions for both the Form 1099-NEC and 1099-MISC are combined and can be found on the [IRS website](#).

What is Form 1099-NEC?

A business must file a Form 1099-NEC if the following four conditions are met:

1. Payment is made to an individual, partnership, estate or, in certain cases, a corporation;
2. Payment is made to someone who is not the payor's employee;
3. Payment is made for services in the course of its trade or business (including government agencies and nonprofit organizations); and

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4. Payments made to the payee are in total for the year at least \$600.

The Form 1099-NEC is now the appropriate form to report \$600 or more in payments for services performed by a nonemployee and fees paid to attorneys in the ordinary course of the payor's trade or business for legal services.

What are the changes to Form 1099-MISC?

As a result of the creation of the new Form 1099-NEC, the IRS revised Form 1099-MISC to rearrange box numbers and add additional boxes. The Form 1099-MISC remains the appropriate form to report \$600 or more in payments for (among others) rent, prizes, awards and other income. Gross proceeds paid to an attorney for legal services (e.g., fees paid to an attorney as part of a settlement agreement), but not for the attorney's services, also continue to be reported on Form 1099-MISC. For example, a business who pays \$800 in taxable damages to a claimant by paying that amount directly to the claimant's attorney is required to report the \$800 on a Form 1099-MISC.

These changes will impact businesses that routinely issue a Form 1099 to independent contractors. If you have questions about Form 1099-NEC or the changes to 1099-MISC, contact your Reinhart attorney.

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