



FORM 1099 MISC – GENERAL GUIDELINES

INTRODUCTION

The information below is intended to provide general guidelines for the Form 1099-MISC.

The IRS has several versions of the Form 1099 depending on the each form's individual purpose.

The one most commonly used is the 1099-MISC. The IRS requires individuals, churches, and organizations (profit or nonprofit) to use this form to report specific kinds of taxable income paid to individuals and unincorporated entities.

The second most common 1099 form is Form 1099-INT, which is used primarily to report the payment of interest to unincorporated entities and individuals. The guidelines in this document relate to the Form 1099-MISC.

An "unincorporated entity" typically includes sole proprietors, partnerships, and most limited liability companies. Often times, an incorporated entity will have "Inc." following the name of the company. Corporations receiving payment for services are not required to receive a Form 1099-MISC.

WHO SHOULD RECEIVE A 1099-MISC?

- + Individuals and unincorporated entities who are not treated or hired as employees, but are paid to perform services ("services" include the performance of any action or labor that brings value or benefit to an individual or entity)
- + Individuals and unincorporated entities paid \$600 or more in a calendar year for their services
- + Individuals and unincorporated entities receiving rent or lease payments – for the rental of real property and equipment (An exception for benevolence payments is noted on page two.)

In all cases, a valid name, address, and Social Security Number (SSN) or a Federal Employer Identification Number (FEIN) of the person or entity receiving payment is required for the completion of the Form 1099-MISC. Because of this, payments made for services or rent should not be made without first obtaining this information. The IRS recommends the use of the Form W-9 to obtain the required information of a person or unincorporated entity receiving payment for services and rent.

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Assuming the requirements for receiving a 1099-MISC (noted on page one) are met, the circumstances in which a Form 1099-MISC may or may not be required include, but are not limited to the following:

TYPE OF PAYMENT	1099 REQUIRED?	EXPLANATION
A <i>love gift</i> or offering paid to a person whether the funds originated from the members of a church or the church itself	Maybe	If a love gift or offering is collected and then given to a person already being paid as an employee, the payment <u>must</u> be included in the employee's W-2 salary. If the recipient is not (or should not) be paid as an employee, a 1099-MISC must be issued to the recipient.*
Gifts to missionaries	Maybe	If the gift is paid directly to the missionary in his/her name, then a 1099 is absolutely required. If the gift is funneled through a sponsoring organization, and the check is made out to the sponsoring organization, then the 1099 MISC should be provided by the sponsoring organization rather than your organization. And the payment does not need to be reported as 1099 MISC income.
Benevolent gifts	Maybe	Benevolent gifts to non-employees are not taxable, and a recipient should not receive a 1099. If the recipient is an employee, the amount must be added to their W-2 salary regardless of whether services were performed or it was simply a benevolent gift.
Payments to individuals who are <u>not</u> citizens of the U.S.	Maybe	If services are performed in the U.S., the recipient must receive a 1099. Payments to individuals who are not U.S. citizens are subject to additional federal regulations and thus are not recommended.
Payments to U.S. citizens for services performed outside the U.S.	Yes	U.S. citizens receiving payment for non-employee services performed outside the U.S. must be given a 1099-MISC. These payments could also be subject to additional IRS regulations.
Payments to a limited liability company (LLC)	Yes	In most cases, LLC's are taxed as a partnership, which means they are required to receive a 1099 for payment of services. Because it can be difficult to know how an LLC is taxed, it is usually best to issue a 1099 to an LLC.
Rent or lease payments	Maybe	For real estate and personal property – unless it was a benevolent payment to a person in need or on behalf of a person in need.
Prizes and Awards	Maybe	Prizes and Awards for \$600.00 or more that are not for services performed. If it's a non-cash prize, the Fair Market Value must be reported. Prizes and Awards given to employees must be reported on a W-2.

* There are strict IRS regulations that dictate whether a person should be paid as an employee or as a contract laborer (i.e., recipient of a 1099-MISC versus a W-2). For more information, please review the Position Paper titled, "Independent Contractor Versus Employee" located on the GoodFaithAccounting.com website.

WHO SHOULD NOT RECEIVE A 1099-MISC?

- + Individuals paid as an employee should rarely, if ever, receive a 1099-MISC; these payments should be included in their W-2 salary.
- + Incorporated entities
- + Recipients of less than \$600 in a calendar year
- + Recipients of payments for the purchase of products
- + Non-employee recipients of a benevolence payment

As long as accurate information is reported, it is rarely a problem to send a 1099 to a recipient even if it is not required. There are often exceptions and gray areas to most IRS regulations. If there is a question about a specific situation not fully described above, please consult with a tax or accounting professional.