

[MONOTELO] QUARTERLY



AVOID THE HEADACHES and Penalties Associated with 1099 Reporting

When a small business hires an employee, there are a number of expenses that are incurred in addition to the hourly wage. This could include employer-provided benefits, office space, along with the technology and other tools required to do the job. The employer will also have to make required payments and contributions on behalf of employees, including:

- The employer's share of the employee's Social Security and Medicare taxes, which totals 7.65% of the employee's compensation
- State unemployment compensation insurance,
- Workers' compensation insurance.

Depending upon the industry, the additional contributions could increase your payroll costs by 20% to 30% – or more. You can avoid these expenses by hiring an independent contractor to do the same work. However, there are certain requirements that must be followed in order to avoid the headaches and penalties associated with 1099 reporting.

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WHAT AND WHEN DO I HAVE TO FILE?

Businesses are required to report all income to the IRS for its employees and their independent contractors. For employees, a W-2 is required to be filed. Independent contractors on the other hand, get a little more complex. To make matters worse, congress recently passed the Path Act, and moved up the filing deadline for W-2's and certain 1099's. The required date to provide W-2's and 1099s to employees and independent contractors is January 31. The deadline for submitting these forms to the government is also January 31.

THREE STRATEGIES TO AVOID 1099 HEADACHES

The easiest way to avoid the penalties, and filing headaches caused by issuing 1099s to independent contractors is to structure your business activities to minimize the number you must issue, and prepare them in advance, if you do have to issue them.

STRATEGY #1:

Choose contractors that operate as corporations. Your business is not required to issue 1099s for payments made to corporations, S corporations or LLC's that elect corporate status for tax purposes (unless the corporation collects attorney fees or payments for health and medical services).

STRATEGY #2:

Make payments to independent contractors with a credit card, or a third-party payment network like PayPal. Shift the burden of reporting this income to the credit card company or the third-party network. They are required to report the payments on Form 1099-K.

STRATEGY #3:

Require the independent contractor to provide you with a W-9 upfront before making any payments to them. Here are the benefits:

- You will know if a 1099 filing is required, because their business type is disclosed on the W-9.
- You will know whether an LLC is classified as a corporation for federal tax purposes, and excluded from 1099 reporting.
- By getting the W-9 upfront, it eliminates the need to chase the contractor down for the required information if you need to file a 1099. Once the contractor is paid, your leverage for getting the information is gone.

If an independent contractor refuses to provide you with a taxpayer identification number (TIN), and you pay the contractor more than \$600 or more during the calendar year, then you are required to withhold federal income tax on payments made to that contractor. If you do not withhold, your business owes the tax, and it is on you to prove the contractor paid the tax.