

INFORMATION GUIDE

Form 1099-NEC &
Form 1099-MISC Instructions



The Form Is No Longer New, But It's Been Modified for 2021

The IRS released Form 1099-NEC for the 2020 tax year.

The form replaced Form 1099-MISC for reporting nonemployee compensation (in Box 7).

Unfortunately, this development created a lot of confusion: some filers didn't realize a new form existed, while others used the wrong form or failed to complete certain sections properly.

Combined with the disruption of the COVID-19 pandemic, it was a less-than-ideal transition to the reintroduced 1099-NEC. As we set our sights on the next tax-filing year, we should expect a smoother adoption of the 1099-NEC due to some updates and simplifications.

Let's look at the latest changes to know what to expect

and how to handle them appropriately. The 2021 form was streamlined in format and includes a few strategic changes, such as the addition of Box 2 to avoid the need to file both a 1099-MISC and 1099-NEC. Payers may use Box 2 or Box 7 on the 1099-MISC to report any sales totaling \$5,000 or more. The IRS also deleted the FATCA filing requirement box and two large red boxes.

As a result of the form updates, the 2021 form was resized to accommodate three forms on a page.

Who Should Receive Form 1099-NEC?

The 1099-NEC captures 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

2020 NEC Form Modifications

The diagram shows the 2020 Form 1099-NEC with several annotations. A yellow box labeled "BOXES DELETED FOR 2021" has arrows pointing to the FATCA filing requirement box (Box 12) and two large red boxes (Boxes 13 and 14). The form itself includes fields for Payer's name, TIN, Recipient's name, TIN, address, and various boxes for reporting compensation, tax withheld, and state information. The form is titled "2020 Form 1099-NEC" and includes the IRS logo and "Do Not Cut or Separate Forms on This Page" instructions.

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

EXCEPTIONS:

- Payments for merchandise, telegrams, phone, freight, storage or similar items
- Payments to a tax-exempt organization, including tax-exempt trusts; federal, state, and local governments; or a foreign government

2021 Instructions for Form 1099-NEC

Payer's information:

Name, address, telephone number and TIN

Recipient's information:

Name, address, and TIN

The diagram shows the 2021 Form 1099-NEC with the following sections and callouts:

- Payer's information:** Points to the top left section containing the Payer's name, address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
- Recipient's information:** Points to the middle left section containing the Recipient's name, address (including apt. no.), city or town, state or province, country, and ZIP or foreign postal code, and account number.
- Box 1:** Points to the top right section labeled '1 Nonemployee compensation'.
- Box 2:** Points to the section labeled '2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale'.
- Box 3:** Points to the section labeled '3'.
- Box 4:** Points to the section labeled '4 Federal income tax withheld'.
- Boxes 5, 6 and 7:** Points to the bottom right section containing '5 State tax withheld', '6 State/Payer's state no.', and '7 State income'.
- Copy A:** Points to the right side of the form, labeled 'Copy A For Internal Revenue Service Center File with Form 1096'.

Box 1:

Nonemployee compensation if you paid this person \$600 or more during the year

NEW FOR 2021

Addition of Box 2:

Use either this Box (OR Box 7 on the 1099-MISC) to report sales of \$5,000 or more of consumer products for resale, on buy-sell, deposit-commission, or any other basis

Box 4:

Any federal income tax withheld

Boxes 5, 6 and 7:

If applicable, state taxes withheld, state identification number and amount of earned income in the state

Critical Dos and Don'ts with Form 1099-NEC

- ✓ Do verify that the recipient's taxpayer ID is correct. You must have Form W-9 from each recipient with the current taxpayer ID before you complete Form 1099-NEC.
- ✗ Don't use Form 1099-NEC to report personal payments.
- ✗ Don't use Form 1099-NEC to report employee wages; use Form W-2 instead.
- ✗ Don't report gross proceeds to an attorney (not fees) on Form 1099-NEC; use Form 1099-MISC instead.
- ✗ Don't use Form 1099-NEC to report payments of rent to real estate agents or property managers; use Form 1099-MISC instead.

Filing and Submitting Form 1099-NEC

- Distribute to recipients by January 31.
- File with the IRS by January 31 through paper or electronic filing.
- In 2019, the United States Congress enacted the Taxpayer First Act, which has changed employer electronic filing requirements for calendar years beyond 2020. However, until final regulations are issued, the electronic filing threshold remains at 250.

Please note: You must also file Form 1099-NEC (report in box 4) for anyone from whom you withheld federal income tax under the backup withholding rules, regardless of the amount.

2021 Instructions for Form 1099-MISC

For 2021 reporting, the title for Form 1099-MISC has been changed from Miscellaneous Income to Miscellaneous Information.

NEW FOR 2021
Title change:
 from "Miscellaneous Income" to "Miscellaneous Information"

Box 7:
 Direct sales of \$5,000 or more

Box 9:
 Crop insurance proceeds

Box 11:
 Under section 6050R, use this section to report cash payments for the purchase of fish for resale purposes, from an individual or corporation engaged in catching fish

Box 10:
 Gross proceeds to an attorney

Box 12:
 Section 409A deferrals

Box 14:
 Nonqualified deferred compensation

Boxes 15, 16 and 17:
 If applicable, state taxes withheld, state identification number and amount of earned income in the state

Critical Dos and Don'ts with Form 1099-MISC

- ✓ Do report gross proceeds to an attorney (not fees) on Form 1099-MISC.
- ✓ Do complete a 1099-MISC if you made royalty payments of at least \$10 during the year.
- ✓ Do use Form 1099-MISC for miscellaneous income, such as rents, royalties, and medical and health care payments.
- ✗ Don't use Form 1099-MISC to report personal payments.
- ✗ Don't use Form 1099-MISC to report employee wages; use Form W-2 instead.

Filing and Submitting Form 1099-MISC

- Distribute to recipients by January 31.
- File with the IRS by February 28, if filing by paper: March 31, if filing electronically.
- In 2019, the United States Congress enacted the Taxpayer First Act, which has changed employer electronic filing requirements for calendar years beyond 2020. However, until final regulations are issued, the electronic filing threshold remains at 250.

Please note: You must also file Form 1099-MISC for anyone from whom you withheld federal income tax under the backup withholding rules, regardless of the amount.