

December 2, 2020

RE: Reporting Requirement for Forms 1099

Dear Client:

The IRS has made big changes to the 1099-MISC for by reviving the 1099-NEC form. Beginning with the 2020 tax year (to be file by February 1, 2021) the new 1099- NEC form will be used for reporting nonemployee compensation (NEC) payments. Previously NEC was reported in Box 7 of the 1099-MISC form. These payments will now be reported in Box 1 of the 1099-NEC form.

Section 607 (C) requires you to file Form 1099-NEC on or before February 1, 2021, using either paper file or electronically filing procedures. File Form 1099-MISC by March 1, 2021, if you file on paper, or March 31, 2021, if you file electronically.

The PATH Act., P.L. 114-113, Div. Q, Sec 201, accelerated the due date for filing Form 1099 that includes NEC from February 28 to January 31 and eliminated the automatic 30day extension for forms that include NEC.

Kiyohara & Takahashi will *electronically* file Form 1096 &1099 to the IRS. We will send you Form 1099 (the Recipient copy) so you can distribute them to the recipients.

The IRS requires business owners to file a Form 1099-NEC, for every individual or non-corporate LLC that you paid over \$600 in 2020 for nonemployee compensation. It's critically important to meet these requirements, as late filings could result in penalties from \$50-\$280 per return, depending on the delay – with penalties as high as \$560 per return (with no maximum) for incorrect information or intentional disregard to file.

Federal law requires businesses (as well as non-profit organizations) to issue Form 1099-NEC or 1099-MISC, for each person in the course of your business to whom you have paid the following during the year. At least \$10 in Royalties and at least \$600 or more during the year for services rendered to your trade or business. These 1099 forms must be distributed to such payees *no later than January 31, 2021*.

If you receive rental income from real estate and engage in a trade or business, you are subject to the same filing requirements as stated in the above paragraph. You are engaged in a trade or business if you operate for gain or profits.

State law requires that employers report to the Employment Development Department (EDD) these independent contractors within 20 days of EITHER making payments of \$600 or more OR entering into a contract for \$600 or more with an independent contractor in any calendar year, whichever is earlier. Penalties are \$24 for each failure to comply. You may either submit a paper Report of Independent Contractor(s) (DE 542) or file it online.

It is also important to have your independent contractor complete Form W-9, Request for Taxpayer Identification Number and Certification. The form can be used to request the correct name and taxpayer identification number or TIN of the workers. It is generally recommended that you request W-9s prior to issuing payment to ensure compliance from your vendor.

If you would like us to prepare Forms 1099 for you, please complete the enclosed Form 1099 Template. On the form, please provide the vendor name, address, social security number (or taxpayer's ID number), type of payments, and total amount paid for the calendar year 2020. It is important for you to verify that names and ID numbers are accurate to avoid IRS matching notices.

You can find the 1099 template, Form W-9, and DE 542 on our website at www.ktadvisors.com under "1099 Template." You may send us the information either by email or fax.

Due to our increased workload at this time of year, we cannot guarantee that requests received after January 15, 2021 will be filed on a timely basis..

We appreciate this opportunity to be of service to you. Should you have any questions, please contact Lucina Leyva at 323-278-1300 x 234 or lleyva@ktadvisors.com.

Kiyohara + Takahashi LLP