



January 2018

Dear Client:

Any person engaged in a trade or business (including partnerships and nonprofit organizations) that meets any of the following requirements needs to file an information return. (Personal payments are not reportable.)

DUE DATES:

- Form 1099-MISC with box 7 completed: January 31, 2018 to the recipient AND to the IRS
- Form 1099-MISC box 7 NOT completed: January 31, 2018 to the recipient and February 28, 2018 to the IRS
- Forms 1099-B, 1099-S and select forms 1099-MISC (if amounts are reported in boxes 8 or 14) have an extended due date of February 15, 2018.
- All other forms 1099 except as noted below: January 31, 2018 to the recipient and February 28, 2018 to the IRS

WHERE TO FILE: California businesses should mail the original return to IRS, Kansas City, MO 64999 and a copy to the payee. Other state businesses should contact our office for the appropriate mailing address.

WHAT IS INCLUDED: Attached is a "Guide to Information Returns" detailing the various types of forms required by the IRS. Most businesses will need to file form 1099-MISC for non-employee compensation and/or rents paid to a non-corporate landlord.

EXEMPTIONS FROM 1099 REPORTING:

- Owners of rental real estate are NOT required to report payments of \$600 or more to service providers (unless your real estate ownership qualifies as a trade or business).
- Corporations continue to remain exempt from information reporting requirements (except if the payments were made to attorneys or health care providers).
- Payments for merchandise (goods and tangible property), telephone, storage, freight, and other similar items are NOT required to be reported on a form 1099.
- Payments not made in the course of a trade or business (any personal services) are exempt.

FORM 1099-K: "Payment settlement entities" (credit card companies, etc.) are required to report credit card and third-party transaction payments on a form 1099-K. In other words, if you run a business that accepts credit cards, debit cards, or other third-party transaction payments, you should receive a form 1099-K for 2017 if you had more than 200 transactions and had more than \$20,000 gross income paid to you. The IRS does match the amounts reported on Form 1099-K to your tax returns, so please include any 1099-K's received when providing us your tax return information.

MISSING ID NUMBERS: If the payee fails to provide their taxpayer identification number to the payor or if the ID number is obviously incorrect, the payor must begin "back-up withholding" of federal income tax at a rate of 28% on all accounts paid to the payee and remit this amount to the IRS. If you are provided an incorrect ID number, the IRS will notify you of an invalid number and, unless the number is corrected, you will have to commence "back-up withholding". We recommend that you request any service provider (the "payee") to complete a form W-9 at the time the services begin and retain the form in your files.

INTEREST: The interest rate at January 1, 2018 is 4% per year for federal and 4% per year for California.

PENALTIES: Both the IRS and the State of California will disallow a business deduction for any amount that was not properly reported on an information return. The penalty for not supplying timely information statements to recipients begins at \$30 per statement and raises as the length of delinquency increases.

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FRIEDMAN AND PERRY, CPA'S: We are not a corporation. If you paid us \$600 or more in 2017 as a business expense, you will need to prepare and send us a form 1099-MISC. Our ID number is 94-3025265.

STATE REPORTING:

- You are not required to file a copy with the California Franchise Tax Board unless you withheld state income tax or the state amount is different from the federal amount. The IRS will forward the information to the State of California.
- You must file form DE 542 with the California EDD within 20 days of making payments of \$600 or more or entering into a contract of \$600 or more with an independent contractor, whichever is earlier. This applies to any independent contractor that will require a form 1099-MISC for the calendar year. You are not required to report independent contractors that are corporations, general partnerships, limited liability partnerships, or limited liability companies (individuals or sole proprietorships only). Form DE 542 can be filed electronically through the EDD's e-Services for Business or submitted on paper.
- If you are not a California resident, contact us for the applicable rules of your state.

NEED HELP? If you would like our assistance in preparing any of these reports, please contact our office as soon as possible. Blank forms can be obtained at the IRS website (www.irs.gov) and most office supply stores. We maintain a limited supply for client use if you only need a small number of forms.

Sincerely,

Friedman & Perry, CPA's