



Robert W. Wood
THE TAX LAWYER

TAXES | 1/25/2014

7 Crippling Mistakes With Form 1099 That Cost Big

It's [Form 1099](#) season, and companies big and small are churning them out. If you're in business—even as a sole proprietor—you need to pay attention to issuing them or face penalties. The burden on businesses seems to grow each year. Even cost basis is now required on some Forms 1099.

But the real prize is receiving them. Since the IRS gets a copy of every single one, they are key pieces of information that can cost you big. You may not like the little forms, but here are 7 key traps.

1. Don't Forget to Watch Your Mail. People always seem careful with Forms W-2 since they are traditionally attached to tax returns showing wages as well as taxes withheld. But I'm often surprised by how careless people are about Forms 1099. Watch for each Form 1099! They are matched to your [Social Security Number](#), and you're almost guaranteed an audit if you fail to report one.

9575

 VOID CORRECTED

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	OMB No. 1545-0115 2013 Form 1099-MISC		Miscellaneous Income
		2 Royalties \$			
PAYER'S federal identification number		3 Other income \$	4 Federal income tax withheld \$		Copy A For Internal Revenue Service Center
RECIPIENT'S identification number		5 Fishing boat proceeds \$	6 Medical and health care payments \$		
RECIPIENT'S name		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$		File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2013 General Instructions for Certain Information Returns.
Street address (including apt. no.)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$		
City or town, province or state, country, and ZIP or foreign postal code		11 Foreign tax paid \$	12 Foreign country or U.S. possession \$		
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$		
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$	

Form 1099-MISC Cat. No. 14425J www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

2. Don't Forget Changes of Address. Even if the issuer of the form has your **old address**, the information **will** be reported to the IRS (and your state tax authority) based on your Social Security number. Make sure payers have your correct address so you get a copy. Update your address directly with payers, as well as putting a forwarding order in with the U.S. Post Office. You'll want to see any forms the IRS sees.

It's a good idea to file a change of address [Form 8822](#). The IRS explains how and why at [Topic 157 – Change of Address—How to Notify IRS](#).

3. Beware Errors. The normal deadline is January 31 for mailing 1099s to taxpayers. Then, the payer has until the end of February to send copies to the IRS. Some payers send forms to taxpayers and the IRS simultaneously, but most use the 30 day delay. That delay means you may have the chance to correct errors. Don't just put arriving Forms 1099 in a pile; open them immediately.

Suppose you get a 1099-MISC on January 31 reporting \$8,000 of consulting pay, when you know you received only \$800? Inform the payer immediately in writing and by phone. There may be time for the payer to correct it **before** sending it to the IRS. That's better for you. If the payer has already sent an incorrect form to the IRS, ask them to send a corrected form. There's a box to

show it is correcting a prior 1099 so the IRS doesn't add the amounts together.

4. Don't Lose Them. Open the envelope and check the form. And keep the forms in a safe place. You'll need them if you do your own return. If you have a paid preparer, you should give copies of each form to your return preparer.

5. Beware Timing. Don't be too anxious to file your return if you haven't received all your Forms 1099. Some 1099s may come as late as March or April, despite the normal deadline that they are supposed to be mailed to you no later than January 31.

6. Missing One? Don't Ask! Keeping payers advised of your current address is a good idea, but if you don't receive a Form 1099 you expect, I wouldn't request it. If you are expecting a Form 1099, you know about the income and the amount. Just report it on your [tax return](#). Reporting **more** income doesn't trigger a mismatch on IRS computers.

In contrast, if you **fail** to report something on your return that is reported on a Form 1099, that **is** a mismatch. But why not **request** a Form 1099 you expect?

If you call or write and ask for a Form 1099, the payer may issue the Form 1099 incorrectly. Or, you could end up with two, one issued originally (even if it never got to you) and one issued because you inquired. The IRS computer may think you had twice the income you did.

7. Report Them, Don't Attach Them. I see clients fighting tax bills every year that probably could have avoided problems entirely by more careful reporting. You can't ignore 1099s. Sure, you may disagree that something is income (say, an injury lawsuit recovery). You may say money is capital gain not ordinary income. It might even be recovery of basis and not income at all.

But you have to explain. Don't ignore the form. And don't attach it. Even in paper filing days, copies of Form 1099 didn't go on tax returns. Just keep them with a copy of your tax return. You may need them in an audit.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.