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THE TAX LAWYER

TAXES 01/25/21

It's IRS 1099 Time, Beware New Gig Form 1099-NEC

IRS Forms 1099 arrive around the end of January 2021 for 2020 payments. The IRS likes these forms, which allow computer matching of your Social Security Number against your tax return. Businesses issue the forms to anyone who receives \$600 or more for services during the year. There are many other types of 1099. For example, you probably get a Form 1099 for every bank account too, even if you only earned \$10 of interest. The most common variety is Form 1099-MISC, for miscellaneous income. But the newest one is [Form 1099-NEC](#), and it covers the waterfront for any independent contractor. The explosion of gig workers means they now have their own 1099 form. Up until 2020, if you were paying an independent contractor, you reported it on Form 1099-MISC, in Box 7, for non-employee compensation. For 2019 and prior years, putting income in Box 7 of a Form 1099-MISC usually tipped the IRS off that you should be paying self-employment tax too. Now, use [Form 1099-NEC](#), and if you receive one, remember that self-employment tax can be expensive. It is equivalent to *both* halves of the employer and employee payroll taxes that apply to wages, which are reported on Form W-2.



Self-employment tax can add a whopping 15.3 percent on top of income taxes. That 15.3 percent applies up to the wage base of \$137,700, with 2.9 percent tax thereafter on any excess over \$137,700. There's no limit on that 2.9 percent, even if you earn millions. In short, self-employment tax is nothing to sneeze at. You can read more [about Form 1099-NEC](#) specifically for reporting 2020 payments to independent contractors. What happened to Form 1099-MISC now that Box 7 was essentially made into a whole new form for independent contractors? For 2020 and subsequent-year payments, your choices on Form 1099-MISC are more limited. Most payments are recorded in Box 3, as other income.

The numbers on any Form 1099 are important. If you [disagree with the information on the form](#) but can't convince the payer you're right and to correct it, explain it on your tax return. If you receive a Form 1099, you can't just ignore it, because the IRS won't. Businesses must send out Forms 1099

by Jan. 31, but don't assume you're off the hook if you don't receive one. Even if you don't receive a Form 1099, you must report all your income, and you don't need a 1099 for that. Many people move, so many Forms 1099 go missing. But if the form is issued, the information will be reported to the IRS based on your Social Security number regardless of whether you receive the form. Update your address directly with payers, as well as putting a forwarding order in with the U.S. Post Office. Getting a transcript from the IRS is a good idea to track all Forms 1099 issued under your Social Security Number, even if you don't receive a copy in the mail.

If there is an error on a Form 1099 [tell the payer immediately](#). There may be time for the payer to correct it. If the payer has already dispatched the incorrect form to the IRS, ask the payer to send in a corrected form. If you forget to report a Form 1099, the IRS will usually send you a computer-generated letter billing you for the taxes. If it's correct, just pay it. Most states also have an income tax, and they will receive the same information as the IRS. If you missed a 1099 on your federal return, your state will probably bill you too. In some cases, if you are [missing an IRS Form 1099, you may want to keep quiet](#). If you are expecting a Form 1099, you know about the income, so just report that amount on your tax return. IRS computers have no problem with that.

Check out my [website](#).