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Forms 1099 Impact Your Taxes And IRS Audit Risk



It is nearly tax time again, and January is a key month for one of the most important tax forms of all: IRS Forms 1099. They usually arrive in late January or early February, reporting how much you were paid in 2022. They can have errors, so check them carefully. Each Form 1099 is matched to your [Social Security number](#), so the IRS can easily issue a tax bill if you fail to

report one. If you don't include the reported item you're almost guaranteed an audit or tax notice.

Even if a company has your old mailing 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, and put in a forwarding order at the U.S. Post Office. It's also a good idea to file an IRS change of address [Form 8822](#). The IRS explains [how to notify IRS](#).

Businesses must issue the forms to any payee (other than a corporation) who receives \$600 or more during the year. That's just the basic threshold, but there are many exceptions. That's why you probably get a Form 1099 for every bank account you have, even if you earned only \$10 of interest income. The key is IRS's matching. Every Form 1099 includes the payer's employer identification number and the payee's Social Security number. The IRS matches Forms 1099 with the payee's tax return. If you [disagree with the information on the form](#) but can't convince the payer you're right, explain it on your tax return.

There are many different forms, and the newest is [IRS Form 1099-NEC, which means extra taxes](#) for independent contractors. There is [1099-INT](#) for interest; [1099-DIV](#) for dividends; [1099-G](#) for state and local tax refunds and unemployment benefits; [1099-R](#) for pensions and payouts from your individual retirement accounts; [1099-B](#) for broker transactions and barter exchanges; [1099-S](#) for real estate transactions, etc. There are many categories, but the [Form 1099-MISC](#) (for miscellaneous) seems to prompt the most questions. If you get a payment, it's likely to result in one of these forms. For example, even a [lawsuit settlement usually means a IRS Form 1099](#)

There are penalties on companies that issue Forms 1099 late, but some come as late as April or May when you may have already filed your return. Even if you never receive a Form 1099, if you receive income, you must report it. You don't need a 1099 to report income. 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. You'll want to see any forms the IRS sees. Getting a transcript is a useful way to double check your information. If there is an error on your Form 1099 [tell the payer immediately](#).

There are many judgment calls companies have to make when issuing these forms. For example, most lawsuit settlements are reported, and in many cases the tax rules are not clear. For example, if you settled a suit and received taxable damages, report the payment as income. But if you have arguments that the lawsuit recovery should not be taxable, the last thing you want is a Form 1099. Some damages are tax-free under [Section 104](#) of the tax code, but only physical injuries and physical sickness qualify. Receiving a Form 1099 can be especially worrisome since with some [lawsuit settlements, legal fees can't be deducted](#).

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