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THE TAX LAWYER

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# IRS Form 1099-NEC Means Extra Taxes



IRS Forms 1099 arrived around the end of January 2023 for 2022 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 types of 1099. For example, you probably get a Form 1099 for every bank account, even if you only earned \$10 of interest. The most common variety is Form 1099-MISC, for miscellaneous income. But the newest form 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 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 \$147,000, with 2.9 percent tax on any excess over \$147,000. You can read more [about Form 1099-NEC](#) specifically for reporting payments to independent contractors. And while the NEC form usually means self-employment taxes, it doesn't have to if you are really not self-employed with respect to the income reported. Some [plaintiffs and whistleblowers receive a Form 1099-NEC when perhaps they should not.](#)

What happened to Form 1099-MISC now that Box 7 was 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 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 you forget to report a Form 1099, the IRS will usually send you a computer-generated letter billing you for the taxes. 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.

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