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THE TAX LAWYER

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Why IRS Form 1099 Is So Dangerous To Your Tax Bill

How harmful could a little Form 1099 be anyhow? They are small, look innocent enough, and there are *so many* of them! That might lull you into thinking they don't count. But be careful. 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 also may need to *issue* them. The burden on businesses grows each year. Even cost basis is now required on some Forms 1099.

But the real danger is receiving them. The IRS gets a copy of every one keyed to your Social Security Number. Failing to pay attention can cost you big.

Information Matching. Each form 1099 is matched to your [Social Security Number](#). You're almost guaranteed an audit if you fail to report one. Even if an issuer 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, and put in a forwarding order at the U.S. Post Office. You'll want to see any forms the IRS sees. It's also a good idea to file an IRS change of address [Form 8822](#). The IRS explains why at [Topic 157 – Change of Address—How to Notify IRS](#).

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|---|--------------------------------------|--|--|---|
| 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 \$ | | |
| | | 3 Other income \$ | 4 Federal income tax withheld \$ | |
| PAYER'S federal identification number | 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 \$ | Copy A For Internal Revenue Service Center 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

Beware Errors. The normal deadline for issuing Forms 1099 is January 31 for mailing them 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, but 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.

Missing One, Don't Ask. 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 1099 to your return preparer. 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.

Here's why. 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.

Don't be too anxious to file your return if you haven't received all your Forms 1099. Some Forms 1099 may come as late as March or April, despite the normal deadline (they are supposed to be mailed to you by January 31). 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, a physical 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 report the 1099 payment and explain. Don't ignore the form, and don't attach it. Just keep Forms 1099 with a copy of your tax return. You may need them in an audit.

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