

THE 1099 MYSTERY UNRAVELED

I often get asked as to when a 1099 is required to get issued. Any vendor that your company paid over \$600 in any given calendar year is subject to a 1099. It can be payment for services, reimbursements, or any other purchase or expense. If a vendor is paid less than \$600, no 1099 will be required. An exception to this rule is if the vendor is a corporation and has provided you their FEIN (Federal Employee Identification Number). In those cases, no 1099 will be required. NOTE: Any payments to attorneys, regardless of their entity status or dollar amount paid, are always required to get a 1099. Also note – LLC's and LLP's must be 1099'd if you paid them \$600 or more.

What about when a company reimburses a vendor for expenses, travel, etc.? Essentially, if the vendor submits original receipts for these reimbursements, (your company has the originals in their files), a 1099 will not be required to be issued. This is what is known as an “accountable plan”. If, however, the payer only receives copies of the receipts, or is paying a per diem rate, or any other agreed payment for which the payer does not get original back-ups for the dollar amounts expended, then a 1099 is required to be issued to the vendor. This is called an “unaccountable plan”. Essentially, the 1099 follows the original receipts.

Keep in mind in these expense reimbursement examples, when a 1099 is issued; the recipient would simply be claiming the “income” or reimbursement, and then taking a deduction for the amount of receipts to which they have in their possession.

In some cases this may even prove beneficial to the vendor. Case in point: A vendor received a check for reimbursement of travel expenses to Chicago for 6 days. The vendors actual out of pocket costs are \$600 for the hotel and \$240 for meals. The vendor got a check and a 1099 for \$ 840 because no original receipts were turned over to the payer. Now the vendor (recipient) files their tax return and claims the \$840 as income along with any other income in their business. When it comes to the deductions for business expenses that vendor is allowed to deduct the higher of actual expenses or the government per diem allowances for the trip. In our example here that would be \$ 1,188 (\$168 per day for hotel x 5 nights plus \$58 per day for meals for 6 days). Thus the vendor now has a tax loss of \$348. The vendor is allowed to claim the \$1,188 deduction even if they did not actually expend that amount.

Lesson learned? Go ahead and claim all your income including reimbursements and take all your entitled deductions. Keep your original receipts in hand as proof that you did indeed travel to a particular location. Enjoy the tax law – for once it is in your favor, my friend!

Feel free to contact us should you have any questions or need help in this or any other tax matter.

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