

1099's Made Simple

A Step-by-Step Guide to Staying Compliant



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Disclaimer

There is a reason that the accounting profession exists. The purpose of this book is not to teach you everything there is to know about accounting or bookkeeping. The purpose is to educate you, so you are more capable of working with and understanding your accounting professional and understanding how your business' financial information can be used to improve the performance of your business. As such, this book is for educational purposes only. Every business is different. We encourage you to seek professional legal, tax, and accounting assistance in implementing the suggestions discussed here and to set up processes and procedures that meet the needs of your business.

Why is it important to stay compliant with these regulations?



Here are three key reasons:

1. **Avoid Legal Risk** – When filing your tax return, you're asked if you made payments requiring a Form 1099. Answering “no” when you should have said “yes” is considered perjury. Answering “yes” but failing to file the required forms invites IRS scrutiny.
2. **Avoid Costly Penalties** – Missing or incorrect 1099 filings can result in steep fines, with penalties reaching up to \$630 per form.
3. **Protect Your Deductions** – The IRS may disallow your deductions for payments that should have been reported via 1099 forms, increasing your taxable income.

Our goal is to educate you so you can quickly correct this issue and establish a system to protect yourself moving forward. Since tax regulations are constantly changing, it's essential to work with a qualified professional who can help ensure compliance with the latest rules. *This is not tax advice.*

This strategy guide will discuss:

1. What each Form 1099 is used for and when they are due.
2. When a Form 1099 is required to be filed.
3. What the penalties are for not filing.
4. How to create a system to protect yourself in the future.

What is each Form 1099 used for and when they are due?

There are many different 1099s, but the 4 most used versions are:

1. 1099-NEC
2. 1099-MISC
3. 1099-INT
4. 1099-K

1099-NEC

The 1099-NEC is the most commonly used Form 1099. It reports payments made to individuals and certain businesses for services that could have been performed by an employee but were instead outsourced to an independent contractor.

Form 1099-NEC is due to both the recipient and the IRS before January 31st for payments made during the prior year.

1099-MISC

The 1099-MISC is one that is often overlooked. It is for reporting various miscellaneous payment types:

1. Rents
2. Royalties
3. Prizes & Awards that are not service related
4. Medical & Health Care Payments
5. Attorney Payments (legal settlements)
6. Fishing Boat Proceeds
7. Crop Insurance Proceeds
8. Other Payments that don't fit on either the 1099-NEC or 1099-K, such as punitive damages, gambling winnings (in some cases), and Indian gaming profits.

Form 1099-MISC is due to the recipient before January 31st for payments made during the prior year. They are due to the IRS by 2/28 (paper filed) or 3/31 (e-filed)

1099-INT

The 1099-INT is very normal for anyone that receives interest payments from their bank for their savings account. However, when it comes to businesses that have paid interest to others, it is often overlooked. It is for reporting many different types of interest payments, such as interest on:

1. Bank Accounts, US Savings Bonds & Treasuries, Tax Exempt Interest
2. Interest paid by a business (this is the one you should pay attention to).

Form 1099-INT is due to the recipient before January 31st for payments made during the prior year. They are due to the IRS by 2/28 (paper filed) or 3/31 (e-filed)

1099-K

The 1099-K is relatively new to the small business world. **It is used to report income collected through a 3rd party payment processor, such as Visa, Mastercard, Paypal, Venmo and other similar payment systems.** Prior to 2024, the thresholds for reporting were much higher (> \$20,000) and there was a transaction count as well (> 200), so a lot of businesses may not have received one in the past.

Starting in 2025 (for the 2024 tax year), the reporting threshold will decrease to \$5,000, with plans to lower it further to \$600 in the future. Fortunately, as a business owner, you likely won't need to issue this form yourself. However, you may receive one, and it should be provided to your tax professional. This form is typically issued by January 31st. I will not provide any additional information on this form.

When do you need to file a Form 1099?

Determining whether you need to file a Form 1099 depends on four key factors:

- **Amount spent**
- **Payment method**
- **Type of purchase**
- **Recipient of the payment**

We'll break down each of these factors for the 1099-NEC, 1099-MISC, and 1099-INT.



1099-NEC

Minimum Reporting Threshold

- The minimum reporting threshold for a 1099-NEC is \$600 or more for qualifying services. This form is specifically for reporting service payments, not product purchases. If an invoice includes both a product (e.g., food) and a service (e.g., personal chef services), only the service portion should be reported on the 1099-NEC. However, if the invoice is not itemized and includes both products and services, the entire invoice amount must be reported.

Payment Method

- Payments made via cash, check, ACH, or wire transfer for services must be reported on Form 1099-NEC. However, payments made by credit card or third-party processors (e.g., PayPal, Venmo) are not included, as these transactions are reported separately on Form 1099-K. Avoid double-reporting your supplier's income, as it could lead to discrepancies with the IRS and cause them unintended tax issues.

Types of Services

Before diving into the details, it's important to address some key exceptions.

- **The work being reported must be directly related to a trade or business**—payments for personal services are not reportable. A business-to-business relationship must exist.
- **Employees do not receive a 1099-NEC**; their income is reported on a W-2. Be cautious when issuing both a W-2 and a 1099-NEC to the same individual using the same Social Security Number (SSN). While there are valid reasons for doing so—such as when an employee provides completely separate services (e.g., a payroll clerk who also performs janitorial services after hours)—the IRS may scrutinize this. Ensure there is a clear distinction between the types of services provided. Never split an employee's wages between a W-2 and a 1099-NEC.

What Counts as a "Service"?

There is often debate over what qualifies as a "service" for 1099-NEC reporting. The following section is not an exhaustive list. If you're uncertain whether someone should receive a 1099-NEC, consult your tax professional. In general, when in doubt, file a 1099-NEC—it's far cheaper than the penalties for failing to file when required.

Here are some examples of individuals or businesses that typically require a 1099-NEC:

1. **Professional Services:** Accountants and bookkeepers, attorneys (regardless of entity type, including corporations), consultants (e.g., business, financial, or marketing advisors), architects, engineers, etc.
2. **Creative Services:** Graphic and web designers, Freelance writers or editors, Videographers and photographers, Musicians or composers hired for specific projects, etc.
3. **Manual or Technical Labor:** Repair or maintenance services (e.g., equipment repairs, HVAC servicing), IT specialists or programmers, Construction workers or subcontractors, Cleaning or janitorial services, etc.
4. **Temporary or Project-Based Work:** Event planners or coordinators, Tutors or trainers hired by a business, Translators or interpreters, etc.
5. **Specialized Trade Services:** Electricians, plumbers, or carpenters hired for business purposes, Mechanics providing specialized repair services, Landscapers or grounds maintenance workers, etc.
6. **Medical and Health Services:** Independent doctors, dentists, therapists, and medical billing services hired by the business.
7. **Marketing and Advertising Services:** Social media marketers or managers, Advertising agencies, Brand consultants, etc.
8. **Other Specialized Services:** Independent researchers, Freelance project managers, Virtual assistants, etc.

If you work with foreign-based contractors, you may still be required to file a 1099-NEC for them.

Foreign (non-employee) workers who spend a significant amount of time in the U.S. providing services to U.S. businesses may be considered U.S. tax residents and must receive a 1099-NEC. To determine if this applies, refer to the Substantial Presence Test (SPT) for more details.

Recipient

Payments to C-corporations and S-corporations are exempt, except:

1. **Payments to attorneys (law firms).**
2. **Payments for medical or health care services.**

All other business entities must receive a 1099-NEC. Regarding LLCs, the determination on whether a 1099-NEC should be issued depends on how the LLC is taxed. If it is taxed as a C-corporation or S-corporation, then a 1099-NEC is not required, unless it is one of the 2 exceptions noted earlier.

1099-MISC

Payment Amount Threshold

The minimum reporting requirement for a 1099-MISC is \$600 or more. The single exception is that for royalties the minimum is \$10.

Payment Method

Payments made with cash, a check, ACH, or wire transfer for services must be included. However, payments made by credit card or 3rd party processor are not included. The 1099-K reports these transactions, so please don't double report your supplier's income. It will cause them issues with the IRS when they accidentally underreport their income.

Types of Payments

First of all, there are some exceptions that need to be addressed.

- **The work must be directly related to a trade or business.** Payments for services performed for personal use are not reportable. There needs to be a business to business relationship.
- **Employees don't receive a 1099-MISC for their wages.** Their income is reported on a W-2.
- **No payments for services should be included.** Those go on the 1099- NEC.

The types of payments that are reported on a 1099-MISC are more varied, but much better defined. We will cover those that you are most likely to see.

1. **Rent:** Rent for office space, equipment, land, machinery, or farmland. If you make payments to a property management company, these payments are also included.
2. **Royalties:** Payments from oil, gas, minerals, copyrights, or intellectual property
3. **Prizes and Awards:** Includes contest winnings, recognition awards, and payments to research participants.
4. **Medical and Health Care Payments:** Payments to doctors, medical providers, and healthcare organizations for services provided. They include payments made by insurance companies and businesses but not payments made by individuals for personal care.
5. **Payments to Attorneys:** Payments for legal settlements (distinct from attorney fees.)

Recipient

Payments to C-corporations and S-corporations are exempt, except:

1. **Payments to attorneys (law firms).**
2. **Payments for medical or health care services.**

All other business entities must receive a 1099-MISC. Regarding LLCs, the determination on whether a 1099-MISC should be issued depends on how the LLC is taxed. If it is taxed as a C-corporation or S-corporation, then a 1099-MISC is not required, unless it is one of the exceptions noted earlier.

1099-INT

Payment Amount Threshold

The minimum reporting requirement for a 1099-INT is \$10 or more.

Payment Method

All payments are included when determining whether the minimum reporting requirement has been met.

Types of Interest

First of all, there are some exceptions that need to be addressed.

- **The interest must be directly related to a trade or business.** Interest paid between individuals does not require a 1099-INT. If either party is either a trade or business (this is an IRS definition, so talk with your tax professional if it applies to you), then a 1099-INT may be required even if that party is an individual and not a “**business**”.

You are more likely to receive one of these forms from someone than being required to file them yourself. They usually come from your bank and brokerage account holder. However, if you have loans on your balance sheet, then you may have paid interest that could require a 1099-INT.

Recipient

Interest paid to C-corporations and S-corporations doesn't need to be reported on a 1099-INT.

All other business entities must receive a 1099-INT. Regarding LLCs, the determination on whether a 1099-INT should be issued depends on how the LLC is taxed. If it is taxed as a C-corporation or S-corporation, then a 1099-INT is not required, unless it is one of the 2 exceptions noted earlier.



What are the penalties for not filing a required Form 1099?

There are significant penalties for filing any of the Form 1099s late. If it is determined that you intentionally disregarded filing the form, they are much worse.

Here is a table that outlines the penalties.

Late Filing Timeframe	Penalty
Within 30 days late	\$60 per form
After 30 days but before August 1	\$120 per form
After August 1 or not filed	\$310 per form
Intentionally Disregarded Filing	\$630 per form

How do you set up a system to protect yourself in the future?

Managing your 1099 filings doesn't have to be stressful—it just requires consistency. By following a few key steps throughout the year, you can avoid last-minute anxiety in January and ensure a smooth, hassle-free process.

1. Before you send any amount of money to a person or business that will provide you with one of the items (services, rent, interest) that would generate a 1099, get a properly filled W-9 and an email address from them. It gives you all the information that you need to determine if their entity requires a 1099 and be able to send one to them. It is a simple fact that businesses are much more responsive to this request, when it is necessary to get paid. Trying to get a W-9 in January, after you've moved on to a new provider, is much more difficult. **In fact, large businesses require a W-9 for every one of their suppliers. It doesn't matter what product or service will be purchased. This requirement is a standard control practice to protect against fraud.**
2. Throughout the year, properly code each purchase transaction so that it finds its way into the correct category and identify how the payment was made. Remember, if the payments are made by credit card or 3rd party provider, like Venmo, the payment isn't included on a 1099.
3. In October, have your bookkeeper run a vendor payment report and then confirm that you have a W-9 for each supplier that you have paid more than the minimum required for filing.
4. In January, insist that your bookkeeper categorizes all your transactions by the 7th business day of the month. Then, have them rerun the vendor payment report and identify any missing W-9s. If you have followed the earlier steps, it is unlikely you will find many.

We completely understand that after reading this, your first thought was, **"I don't have time for this."** It definitely wasn't why you decided to start your business. At ProfitArch™, our purpose is to help our clients live a life of meaning. We do that by taking things like this and many other required actions off your plate so that you can focus on what brings meaning to your every day.

Conclusion

Navigating 1099 compliance may seem complex, but with the right systems in place, it can seamlessly integrate into your financial processes. Taking proactive steps now can help you avoid unnecessary penalties, stay in good standing with the IRS, and keep your focus on growing your business.

At **ProfitArch™**, we help business owners streamline their financial operations, ensuring compliance while freeing up valuable time. Let us take this burden off your plate so you can focus on what truly matters—building a meaningful and successful business.

Book a discovery call today and schedule a time for us to discuss how we can best assist you in reaching your goals and living a life of meaning.



About the Author

Coming from an entrepreneurial family, Eric turned his back on his heritage, because he “learned”, as a child, being your own boss meant tons of work, little money, and no time for the family.

After nearly 30 years in Operations and Finance/Accounting roles, working for publicly traded companies in the United States and Asia, Eric realized the problem was not about being your own boss. Rather, it is not understanding the language of business that hurts so many family businesses.

Eric, a CPA and CMA, and his company, ProfitArch™, guide business owners on their personal “Path to Profit™” by blending accounting and operations into a system that leads to greater profit and increased cash flow and freedom. When asked what he likes most about his work, Eric replied: “When I started my business, I didn’t know how gratifying it would be to see a business owner’s eyes light up when they begin to see how our simple processes can make a big difference in their business. I can have a much larger impact on my client’s business, life, and family than I ever could working for big business.”

Eric is grateful he has been able to create a system to assist business owners to build the business they have dreamed of, so they can teach their children that being your own boss is the best way to enjoy a full life, create something meaningful, and be actively involved with the most important people, their family.

About ProfitArch™

Businesses with poor profits and without a solid cash flow are more likely to fail. ProfitArch™ guides you in developing strong systems leading to better decisions, greater profits, and increased cash flow, so you can enjoy the things that matter to you most.

We enjoy getting to know business owners and learning more about their needs.

[Book for a discovery call](#) today to speak with us and discuss next steps.



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