



## JANUARY TAX ITEMS

As we ring in the new year, Smith Leonard would like to remind you of a few upcoming changes and filing requirements for payroll, personal property taxes, and other compliance issues.

### **Form 1099 & Other Information Returns:**

January is the time to prepare your 1099 and other information returns. 1099's must be sent to recipients by January 31, 2020. **Note: The IRS imposes a penalty on taxpayers that fail to file correct information returns (Form 1099) with the IRS. There is also an additional penalty for failure to provide the payee with a correct copy of the information return.**

### ***Who should I send a 1099?***

Any entity or individual engaged in a trade or business that makes certain payments of \$600 or more during the calendar year, in the course of a trade or business, must file an information return. This includes payments made for rent, director's fees, prizes and awards, medical and health care payments, attorney fees, labor, commissions, and other outside services. Payments of interest, royalties, or dividends of \$10 or more by entities other than individuals will also require the filing of an information return.

Payments for which a Form 1099 is not required include payments to governments or a corporation (including a limited liability company (LLC) that is treated as a C or S corporation), except for medical, health care, or law corporations. Payments for merchandise, telegrams, telephone, freight, storage, and similar charges are also not required. Payments made by credit or debit card, or through a payment processor (PayPal, Square, Stripe, etc.) are also not required to be reported on Form 1099.

### ***Review your vendor information and Forms W-9***

When your business onboards a new vendor, the process should include receipt of a W-9 prior to making any payments to them. The W-9 forms are used to prepare Form 1099's and to avoid backup withholding issues. The Form W-9 requires vendors to disclose whether they are set up to do business as an individual or some other type of entity (including whether or not they are a corporation, for which a Form 1099 will generally not be required), in addition to their address and taxpayer identification number (TIN). Persons or entities that have not furnished their correct tax identification number (TIN) to you are subject to backup withholding at 24%. **Caution: During some IRS audits, the IRS has assessed backup withholding even if the taxpayer identification number (TIN) was later obtained.** Therefore, we highly recommend reviewing your vendor files to make sure you have a Form W-9 on file for every vendor you have paid for the calendar year and if not, request them now! It's also a good policy for your business to have each vendor fill out a new W-9 form every year, as they can change. Form W-9 can be downloaded from the IRS [here](#).

### ***Rental real estate activities and the importance of filing Form 1099***

The IRS has taken the position that if you take the new 20% QBI deduction for your rental real estate activities, you should also be filing any required Form 1099's. Located in the Final 199A Regulations, the IRS states: "taxpayers should consider the appropriateness of treating a rental activity as a trade or business for purposes of Section 199A where the taxpayer does not comply with the information return filing requires under Section 6041." Failure to comply with 1099 filing requirements could result in the IRS denying the QBI

deduction – a severe penalty indeed! So, it is critical to determine whether your rental activities rise to the level of a trade or business, and if so, that you file Form 1099's when required.

***Smith Leonard can help you with your 1099 and other information return filing requirements***

If you would like Smith Leonard to assist in the preparation of your business' Form 1099's for 2019, please complete the [1099 Preparation Template](#) and submit it to us as soon as possible.

**Employee Information Review:**

Now is also a perfect time for employees to verify their I-9 or W-4 information. It is important that you have accurate names, social security numbers, and addresses on file for your employees prior to preparing their 2019 Form W-2's. **Note: The IRS may charge employers a penalty for each return or Form W-2 that has a missing or incorrect SSN or Federal identification number.** Please have your employees review their information on file and update their payroll information for any changes or corrections as soon as possible.

**New 2020 Form W-4:**

A new Form W-4 went into effect on January 1, 2020. Only current employees who would like to change their W-4 withholdings, those who filed as tax-exempt in 2019, and new hires will need to submit the new form.

**North Carolina Adopts New Contractor Income Tax Withholding Rules:**

Effective January 1, 2020, a payer must deduct and withhold 4% North Carolina income tax from nonwage compensation paid to a "payee" if the payer expects to pay more than \$1,500 to the payee in that calendar year. Under the new law, a payee is any of the following: a) a nonresident contractor (individuals or entities), b) An ITIN contractor (including those who have applied for an ITIN or have an expired ITIN), c) a person that fails to provide the payer with a taxpayer identification number (TIN), OR d) A person that fails to provide the payer a valid taxpayer identification number (TIN), subject to notification from the Department of Revenue that the TIN is invalid. There are certain exceptions to the new withholding rules. For example, tax is not required to be withheld from compensation paid to a non-resident entity if the entity is a corporation or limited liability company that has obtained a certificate of authority from the North Carolina Secretary of State. However, the payer must obtain from the entity, and retain in its records, the entity's identification number issued by the North Carolina Secretary of State. **Note: The new law imposes personal liability on responsible personal for unpaid income taxes required to be withheld by the business.**

**Business Personal Property Tax Listings:**

In the near future, you will most likely be receiving your county's 2020 business personal property listing forms. These forms are to be completed and returned for any individual or business owning or possessing personal property used or connected with a business or other income producing purpose on January 1, 2020. Listings are due on or before January 31, 2020. However, an extension of time to list may be requested. If you would like Smith Leonard to assist in the preparation of your businesses' personal property tax listing forms, please provide a copy of the preprinted blank form as soon as you receive it.