

FORM 1099 ISSUES

INTRODUCTION

All practitioners must deal with Forms 1099, whether in reporting income reflected on a Form 1099 or in actually preparing Forms 1099 for clients who are required to file them. The most common series of Forms 1099 report miscellaneous income (Form 1099-MISC), interest income (Form 1099-INT), dividend income (Form 1099-DIV), and pension and retirement distributions (Form 1099-R). However, there are several other information returns under the Form 1099 umbrella, including some the practitioner will never prepare. A practitioner needs to recognize these to comply with the reporting requirements. The Internal Revenue Service currently matches all Form 1099 submissions with tax returns, whether filed on paper or by magnetic media. It is extremely important that taxpayers account for all income disclosed on a Form 1099. At the end of this chapter, the IRS guide to information returns is provided, which lists all forms in the 1099 series.

The Internal Revenue Service imposes penalties for failure to file Form 1099 in a timely manner. Since penalties are assessed on a per-document basis, the total penalty assessment can be large.

FORM W-9

Taxpayer identification numbers (TINs) are used to associate the amounts reported on information returns with corresponding amounts on tax returns. Therefore, it is important that correct names, social security numbers (SSNs), individual taxpayer identification numbers (ITINs), or employer identification numbers (EINs) are provided to the recipients on the forms sent to the IRS.

The IRS prefers that taxpayers use Form W-9 to request the recipient's TIN if the recipient is a U.S. person and one of the W-8 series forms if the recipient is a foreign person. If an income recipient fails to provide a TIN, the Form 1099 filer should leave the TIN box on Form 1099 blank. Such payments are subject to backup withholding at the rate of 31%. Taxpayers may also be required to impose backup withholding if the IRS notifies them that the payee furnished an incorrect TIN. If backup withholding is required, the taxpayer reports it on the appropriate Form 1099 and files Form 945, Annual Report of Withheld Federal Income Tax. Form 945 is due January 31, 2001 for backup withholding amounts during the year 2000.

Example 1. Robert's Fine Florals changes its accountant to Alan Able, who conducts his business as OTXCME CO, a sole proprietorship. Robert solicits a Form W-9 from his new bookkeeper. Alan completes the Form W-9 (see Figure 1). He must provide his TIN, but he is not required to certify his backup withholding status. As a sole proprietor, he may provide either his social security number (SSN) or his employer identification number (EIN).

Figure 1.

Form W-9 (Rev. November 1999) Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">Request for Taxpayer Identification Number and Certification</h2>	Give form to the requester. Do NOT send to the IRS.				
Please print or type	Name (If a joint account or you changed your name, see Specific Instructions on page 2.) Alan Able					
	Business name, if different from above. (See Specific Instructions on page 2.) OTXCME CO					
	Check appropriate box: <input checked="" type="checkbox"/> Individual/Sole proprietor <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Other ▶					
	Address (number, street, and apt. or suite no.) 120 North Elm	Requester's name and address (optional)				
City, state, and ZIP code Strawberry Plains, TN 29876						
Part I Taxpayer Identification Number (TIN)		List account number(s) here (optional)				
Enter your TIN in the appropriate box. For individuals, this is your social security number (SSN). However, if you are a resident alien OR a sole proprietor, see the instructions on page 2. For other entities, it is your employer identification number (EIN). If you do not have a number, see How to get a TIN on page 2. Note: If the account is in more than one name, see the chart on page 2 for guidelines on whose number to enter.		Part II For Payees Exempt From Backup Withholding (See the instructions on page 2.)				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Social security number</td> </tr> <tr> <td style="text-align: center;"> </td> </tr> <tr> <td style="text-align: center;">OR</td> </tr> <tr> <td style="text-align: center;">Employer identification number</td> </tr> <tr> <td style="text-align: center;">2 8 2 2 3 3 4 4 0</td> </tr> </table>			Social security number		OR	Employer identification number
Social security number						
OR						
Employer identification number						
2 8 2 2 3 3 4 4 0						
Part III Certification						
Under penalties of perjury, I certify that:						
1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.						
Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. (See the instructions on page 2.)						
Sign Here	Signature ▶	Date ▶				

PENALTIES

If a taxpayer fails to file a correct information return by the due date and cannot show reasonable cause, the taxpayer may be subject to a penalty. The penalty applies if the client fails to file timely, fails to include all information on the Form 1099, or includes incorrect information on the return. The penalty is also applicable if the client files paper documents when required to use magnetic media, uses an incorrect TIN, or does not file paper forms that are machine-readable.

Practitioner Note. Forms 1096 (the transmittal form for all Forms 1099) and Copy A of Forms 1099 must be machine-readable. No photocopies of any of these forms are acceptable to the IRS.

PENALTIES FOR FAILURE TO COMPLY

The amount of the penalty for failure to file timely returns with the IRS is based on when the information return is filed. The penalties are:

- \$15 per information return if the taxpayer files correctly by March 30th (30 days following due date of February 28th). The maximum penalty is \$75,000 (\$25,000 for small business, defined as having average annual gross receipts of \$5 million or less over the most recent three years)

2000 Workbook

- \$30 per information return if filed between March 30th and August 1st (maximum penalty is \$150,000 per year and \$50,000 for small business)
- \$50 per information return filed after August 1st or never filed at all (maximum penalty is \$250,000 per year and \$100,000 for small business)

There is a \$50-per-return penalty for statements not provided to recipients by January 31, with a maximum penalty of \$100,000 per year. This penalty is not reduced by early correction.

The penalties do not apply if the taxpayer can demonstrate that the Form 1099 error or late filing was due to reasonable cause and not to willful neglect. An event beyond the control of the taxpayer or other significant mitigating factors eliminates the penalty assessment. In addition, there are “**de minimis**” rules for corrections that can cause a penalty to be abated. These rules come into play when the original Forms 1099 included errors, but corrections were made by August 1st, and the number of incorrect Forms 1099 does not exceed the greater of 10, or one-half of 1% of the total returns filed.

Practitioner Note. Taxpayers can use electronic filing to transmit the Form 1099 data to the IRS. Electronic submissions are filed using the Filing Information Returns Electronic System (FIRE System). Taxpayers can have an extended due date of April 2, 2001, to transmit these data. The IRS telephone number for FIRE is 1-304-262-2400.

PENALTIES FOR FAILURE TO USE MAGNETIC MEDIA

The mandatory requirement to use magnetic media or electronic filing if the client has **250 or more** information returns creates a potential penalty situation. The IRS encourages the use of magnetic media for fewer than 250 information returns, but it is not yet mandatory. Taxpayers who are required to use magnetic media but file paper documents face a \$50 penalty per information return.

Practitioner Note. A waiver of the magnetic media requirement can be requested on Form 8508. It must be submitted at least 45 days before the due date of the information returns. Waivers are granted for only one year at a time.

The following examples illustrate the computations of penalties by the IRS:

Example 2. The Internal Revenue Service audited the 1998 corporate tax return of Bevis Floor Covering Inc. During the course of this examination, the agent noted that several Forms 1099-MISC were never filed for four self-employed subcontractors. Forms W-9 to obtain the subcontractors' TINs had been completed, but the company failed to follow through with issuing Forms 1099. Since Bevis failed to file Forms 1099 timely, a **\$200 (4 × \$50) penalty** could be assessed for failure to **file** them with the IRS. In addition, a separate **\$200 (4 × \$50) penalty** could be assessed for failure to **furnish** Copy B of the Form 1099 to the four payees (I.R.C. §6722).

Example 3. The vacation fund for the local bricklayers' union paid each of the 380 members a pro rata share of the interest earned by the fund during the year 2000. The union treasurer issued Form 1099-INT to each member for his or her share of the interest earned and submitted Form 1096 with 380 Form 1099-INT **paper documents** attached. Since more than 250 Forms 1099-INT were being submitted, **use of magnetic media is required.** The penalty assessed could be **\$19,000 (380 × \$50)** unless the treasurer or his representative can show reasonable cause for not using magnetic media.

FORM 1099-A

Form 1099-A is filed for each borrower if a lender, in full or partial satisfaction of a debt, either acquires an interest in property securing the debt or has reason to know that the property has been abandoned. Form 1099-A is due February 28. The IRS checks the recipient's return for reporting of income from the foreclosure or abandonment. An abandonment or foreclosure can result in two transactions to be reported:

1. Gain or loss from a disposition of the property
2. Discharge of indebtedness income

PROPERTY

Property means any real property (including a personal residence), any intangible property, and personal property used in a business. It does not include personal property held solely for personal use.

MULTIPLE OWNERS

If there are multiple owners of undivided interests in a single loan (such as pools, investment trusts, etc.), the trustee, record owner, or person acting in such capacity must file Form 1099-A on behalf of all the owners. Each borrower will receive only one Form 1099-A on behalf of all owners with respect to the loan.

Example 4. Five investors have an undivided interest in a mortgage loan they made on an apartment complex. They foreclose on the loan. Only one Form 1099-A is filed. A separate form is not required from each investor.

MULTIPLE LENDERS

If more than one person lends money secured by the same property and one lender forecloses or otherwise acquires an interest in the property that terminates, reduces, or otherwise impairs the other lenders' security interest in the property, the other lenders also must file Form 1099-A.

Example 5. Big Mortgage Brokers holds the first mortgage on a strip shopping center, and a local bank holds the second mortgage. When Big Mortgage Brokers forecloses on the property, the local bank must also issue a Form 1099-A even though the local bank received no part of the foreclosure proceeds.

MULTIPLE DEBTORS

A Form 1099-A is issued to each debtor if debtors are jointly and severally liable for the loan.

ABANDONMENT

Property is considered abandoned when facts and circumstances indicate that the borrower intended to discard, and has permanently discarded, the property from use. A lender is deemed to know all information that would have been discovered through a reasonable inquiry when, in the ordinary course of business, the lender should become aware that the property was abandoned. If the lender expects to begin a foreclosure or similar sale within three months of the date the abandonment is discovered, the reporting requirement begins on the date the lender acquires an interest in the property, or the date of purchase by a third party. If the lender expects to, but does not, begin proceedings within three months, the reporting requirement arises at the end of the three-month period.

Example 6. A local sports complex defaults on its mortgage, and its owners abandon the property on July 24, 2000. The bank holding the mortgage plans to foreclose, but for legal reasons cannot take

2000 Workbook

immediate foreclosure action. The reporting requirement arises for Form 1099-A purposes on October 24, 2000, three months after the abandonment was discovered.

DATES OF ACQUISITION OR ABANDONMENT

An interest in the property is generally acquired on the **earlier** of: (1) the date the title is transferred to the lender or (2) the date of possession and the burden and benefits of ownership are transferred to the lender. If the law provides an objection period, the date when the objection period expires is used. If the lender purchases the property at a sale held to satisfy the debt, such as a foreclosure sale, the acquisition date is the **later** of the date of sale or the date the borrower's right of redemption expires.

Example 7. Friendly Ford Sales, an auto dealer, sells a car on March 3, 2000, to Burt Simpson, a realtor. The auto will be used in Mr. Simpson's business. Mr. Simpson made a \$500 down payment and borrowed the balance of the purchase price (\$21,000) from the dealer. He failed to make any monthly payments, and Friendly Ford Sales repossessed the car on November 2, 2000. Since this was a business vehicle, the car dealer reports the repossession to the IRS on Form 1099-A and provides a copy to Mr. Simpson. The vehicle was later sold to a third party for \$16,000. Figure 2 illustrates the proper preparation of Form 1099-A. Note that the **earlier** date of November 2, 2000, is used in Box 1 of the Form 1099-A.

Since the fair market value of the property is less than the debt, the foreclosure by the car dealer is treated as two separate transactions.

1. The foreclosure is treated first as a sale of property, with gain or loss measured by the difference between Mr. Simpson's adjusted basis and the amount realized, including the cancelled debt up to the fair market value of the property. In this case, there would be a \$5,500 loss to Mr. Simpson, because his adjusted basis of \$21,500 (assume no 2000 depreciation) is greater than the \$16,000 fair market value of the car. This \$5,500 loss is reported on Form 4797.
2. Mr. Simpson also has **ordinary income of \$5,000** representing the canceled debt (\$21,000 less \$16,000) to report as other income on Line 21 of his Form 1040. It is possible that such income might not be taxable if he is insolvent or bankrupt at the time of the discharge.

Figure 2.

LENDER'S name, street address, city, state, ZIP code, and telephone no.		OMB No. 1545-0877		Acquisition or Abandonment of Secured Property
Friendly Ford Sales Inc 3542 Jefferson Avenue Ogden, UT 80300 (576)-655-5555		<div style="text-align: center;"> <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED 2000 Form 1099-A </div>		
LENDER'S Federal identification number	BORROWER'S identification number	1 Date of lender's acquisition or knowledge of abandonment	2 Balance of principal outstanding	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2000 General Instructions for Forms 1099, 1098, 5498, and W-2G.
83-0909090	555-99-0000	11-02-00	\$21000	
BORROWER'S name		3	4 Fair market value of property	
Burt Simpson			\$16000	
Street address (including apt. no.)		5 Was borrower personally liable for repayment of the debt?		
1440 Shady Lane		<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
City, state, and ZIP code		6 Description of property		
Salt Lake City, UT 80200				
Account number (optional)				

Form 1099-A

Cat. No. 14412G

Department of the Treasury - Internal Revenue Service

FORM 1099-INT

Taxpayers are required to report all taxable interest. If the amount is over \$400, the list of payers needs to be itemized on Schedule B (Form 1040) or Schedule 1 (Form 1040-A). All interest reported on Form 1099-INT should be listed on Schedule B even though it may not all be taxable. For example, a taxpayer may receive a Form 1099-INT for a savings account shared with his sister. In this case, the taxpayer reports the full amount of interest on his Schedule B and then, on a separate line reports a “Nominee Distribution” to his sister for one-half the interest, which is then subtracted from the total. He must also file Form 1099-INT as a nominee middleman.

Form 1099-INT, Interest Income, must be filed if the taxpayer, in the course of a trade or business or as a nominee, did one or more of the following:

1. Paid or credited interest of \$10 or more
2. Withheld foreign tax eligible for the recipient’s foreign tax credit on such interest
3. Withheld federal income tax under the backup withholding rules for the interest earned

Original issue discount on short-term obligations (one year or less) and interest on bearer certificates of deposit are types of interest to be included on Form 1099-INT.

Tax-exempt or tax-deferred interest is not included on 1099-INT forms. This includes interest earned on municipal bonds and interest earned in Individual Retirement Accounts (IRAs). Interest paid or credited on long-term original issue discount obligations is reported on Form 1099-OID.

Example 8. Molly Munibonds received \$14,000 in municipal interest from Cobb County (Georgia) bonds in 2000. Molly did not receive Form 1099-INT. This interest is reported only on Line 8b of Form 1040.

Financial institutions frequently offer small gifts to attract new customers or encourage current customers to add to existing accounts. Form 1099-INT is not required for “de minimis premiums” that have a value of \$10 or less for a deposit of under \$5,000 or no more than a \$20 value if the deposit is \$5,000 or more. See Revenue Procedure 2000-30.

Taxpayers must furnish a copy of the official Form 1099-INT, or an acceptable substitute form, to each recipient, either in person or by separate first-class mailing, no later than January 31, 2001. The IRS has recently stated that no penalties will be assessed if the companies use logos on their substitute Forms 1099-INT pending final regulations that will allow the use of logos and identifying slogans.

Example 9. During 2000, Johnny Johnson cashed in \$44,000 in U.S. Savings Bonds, Series EE. At the time the bonds were cashed at the local bank, Johnny received a preliminary calculation from the bank for the amount of interest (\$26,975) earned. The bank will send a Form 1099-INT (Figure 3). The interest is listed on Schedule B (Figure 4), identifying the bank as the payer.

Practitioner Note. The U.S. Treasury interest may be excludable on state income tax returns.

FORM 1099-MISC

Form 1099-MISC covers a wide range of miscellaneous income, including rents, royalties, nonemployee compensation, and prizes and awards. Income from Form 1099-MISC can be subject to self-employment tax and require Schedule C or F reporting; other income reported on Form 1040, line 21 and not considered self-employment income; or passive income reported on taxpayer's Schedule E.

A business taxpayer is required to file Form 1099-MISC, Miscellaneous Income, by February 28, 2001, if the taxpayer has done any of the following:

1. Made payments of \$10 or more for royalties or broker payments in lieu of dividends or tax exempt interest (report in box 8)
2. Made payments of \$600 or more for rents (report in box 1)
3. Made payments of \$600 or more for fees, commissions, services (including incidental parts and materials), and other forms of compensation to persons not treated as employees for services rendered in a trade or business (report in box 7)
4. Gave prizes or awards of \$600 or more that were not for services rendered (report in box 3)
5. Made payments of \$600 for medical and health care payments (report in box 6)
6. Made payments of \$600 for crop insurance proceeds (report in box 10)
7. Made payments for any fishing boat proceeds, or any payments of \$600 or more for the purchase of fish from anyone in the trade or business of catching fish (report in box 5)
8. Made payments of \$600 or more for legal services (report in box 7)
9. Withheld federal income tax on miscellaneous income under the backup withholding rules (report in box 4)

For corporations, only medical and health care payments, substitute payments in lieu of dividends, and attorney fees need to be reported.

A taxpayer is required to furnish a Form 1099-MISC to each recipient by January 31, 2001.

PRIZES AND AWARDS

Businesses and charitable organizations are required to submit Form 1099-MISC for any prize or award valued at \$600 or more paid during the year to any one individual. The amount is included in box 3 of Form 1099-MISC. Raffle winnings are not considered wages subject to Form W-2G (Certain Gambling Winnings) reporting.

Manufacturers' incentive payments, such as those to vehicle salespersons, are reported in box 3 of Form 1099-MISC. They should be reported on line 21 of Form 1040 as other income, since they are **not** subject to self-employment tax.

Example 10.

Betty Irondale bought a ticket for the local hospital raffle and won a set of golf clubs valued at \$1,500. The hospital foundation will issue Betty a Form 1099-MISC (Figure 5), and Betty must report the income on line 21 of Form 1040 (Figure 6).

2000 Workbook

Figure 5.

<input type="checkbox"/> CORRECTED (if checked)			
PAYER'S name, street address, city, state, ZIP code, and telephone no. Bismark Community Hospital P O Box 1000 Bismark, TX 68688 (878) 090-7656		1 Rents \$ 2 Royalties \$ 3 Other income \$ 1500.00	OMB No. 1545-0115 <div style="font-size: 2em; text-align: center;">2000</div> Form 1099-MISC Miscellaneous Income
PAYER'S Federal identification number 65-8989899	RECIPIENT'S identification number 455-99-0909	4 Federal income tax withheld \$	5 Fishing boat proceeds \$
RECIPIENT'S name Betty Irondale Street address (including apt. no.) 4561 Cottonfield Road City, state, and ZIP code Bismark, TX 68688		6 Medical and health care payments \$	7 Nonemployee compensation \$
Account number (optional)		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>
Account number (optional)		10 Crop insurance proceeds \$	11 State income tax withheld \$
Account number (optional)		12 State/Payer's state number	13 \$
Form 1099-MISC		(Keep for your records.)	
Department of the Treasury - Internal Revenue Service			

Copy B For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Figure 6. Form 1040 Showing Raffle Income

	14	Other gains or (losses). Attach Form 4797		14	
If you did not get a W-2, see page 20.	15a	Total IRA distributions	b	15b	
	16a	Total pensions and annuities	b	16b	
Enclose, but do not staple, any payment. Also, please use Form 1040-V.	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
	18	Farm income or (loss). Attach Schedule F		18	
	19	Unemployment compensation		19	
	20a	Social security benefits	b	20b	
	21	Other income. List type and amount (see page 24) PRIZE - Bismark Hospital		21	1,500
	22	Add the amounts in the far right column for lines 7 through 21. This is your total income ▶		22	
Adjusted Gross Income	23	IRA deduction (see page 26)		23	
	24	Student loan interest deduction (see page 26)		24	
	25	Medical savings account deduction. Attach Form 8853		25	
	26	Moving expenses. Attach Form 3903		26	
	27	One-half of self-employment tax. Attach Schedule SE		27	
	28	Self-employed health insurance deduction (see page 28)		28	
	29	Keogh and self-employed SEP and SIMPLE plans		29	
	30	Penalty on early withdrawal of savings		30	
	31a	Alimony paid b Recipient's SSN ▶		31a	
	32	Add lines 23 through 31a		32	
	33	Subtract line 32 from line 22. This is your adjusted gross income ▶		33	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 54. Cat. No. 11320B Form 1040 (1999)

NONEMPLOYEE COMPENSATION

A payment is nonemployee compensation if all of the following are true:

1. It was made to someone who is not an employee of the taxpayer.
2. It was made for services in the course of a trade or business (including government agencies and nonprofit organizations).
3. It was made to an individual, partnership, estate, or, in some cases, a corporation.
4. Total payments to the payee were at least \$600 during the year.

Examples of nonemployee compensation to be included in Box 7 for Form 1099-MISC include:

- Professional service fees, such as fees paid to attorneys (including corporations), architects, and accountants

Note. The extensive and controversial rules regarding the reporting of payments made to attorneys by Prop. Reg. §1.6045-5 have been **delayed** for one year. The IRS released **Notice 99-53** late in 1999. The new reporting rules were scheduled to take effect for attorney payments made after December 31, 1999. However, in Notice 99-53, the IRS announced that **the new reporting rules will be effective for payments made after December 31, 2000.**

Therefore, gross proceeds paid to attorneys **in 2000** will continue to be reported on Form 1099-MISC pursuant to I.R.C. §6045(f). See page 457 in the 1997 and page 749 in the 1998 *Farm Income Tax Books* for details on the new reporting rules.

- Fees paid by one professional to another, such as fee-splitting or referral fees
- Payments by attorneys to witnesses or experts in legal adjudication
- Payments for services, including payment for parts or materials used to perform the services if supplying the parts or materials was incidental to providing the services. **Example:** An insurance company pays an auto repair shop under a repair contract showing one amount for labor and a different amount for parts. The total payment should be reported in box 7, since furnishing parts was incidental to repairing the auto.
- Commissions paid to a nonemployee salesperson that are subject to repayment but not repaid during the year
- A fee paid to a nonemployee (such as an independent contractor) or a travel reimbursement for which the nonemployee did not account to the payer if the fee and reimbursement total at least \$600
- Payments to nonemployee entertainers for services
- Exchange of services between individuals in the ordinary course of a trade or business
- Taxable fringe benefits for nonemployees
- Gross oil and gas payments for a working interest
- Payments to an insurance salesperson who is neither a common-law employee nor a statutory employee
- Director fees
- Payments to §530 workers under the Revenue Act of 1978

PAYMENTS EXEMPT FROM 1099-MISC REPORTING

The following payments do **not** require preparation of a Form 1099-MISC:

- Payments to corporations, except for legal, medical, and health care
- Payments, and substitute payments, in lieu of dividends and tax-exempt interest
- Payments for merchandise, telegrams, telephone, utilities, freight, and storage, and similar payments
- Payments of rent to real estate agents
- Wages paid to employees (reported on Form W-2)
- Business travel allowances paid to employees (reported on Form W-2, if taxable)
- PS 58 costs (insurance factor)—report on Form 1099-R
- Payments to informers for information about criminal activities, but only if such payments are made by federal, state, or local agencies or nonprofit organizations
- Payments for scholarships or fellowships

2000 Workbook

EXAMPLES

The following examples illustrate Form 1099-MISC reporting requirements.

Example 10. An insurance company pays an attorney \$100,000 to settle a case. The insurance company cannot determine the fee earned by the attorney. The full \$100,000 should be reflected in box 13 of Form 1099-MISC, with a code "A" following the \$100,000 (Figure 7). If the insurance company knew that the attorney fee was \$34,000, the \$34,000 fee would be entered in box 7, and nothing would be entered in box 13 (Figure 8).

Figure 7. Amount of Fee Not Known

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Appleton Insurance 5466 Rowden Falling Falls, WI 65555 (318) 778-9988		1 Rents \$	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
		2 Royalties \$		
		3 Other income \$		
PAYER'S Federal identification number 49-0909091	RECIPIENT'S identification number 37-0009999	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Larry Lujack PC Street address (including apt. no.) 45 Park Place City, state, and ZIP code		6 Medical and health care payments \$	7 Nonemployee compensation \$	
		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
Account number (optional) Chicago, IL 60600		10 Crop insurance proceeds \$	11 State income tax withheld \$	
		12 State/Payer's state number	13 \$ 100000 A	

Form 1099-MISC

(Keep for your records.)

Department of the Treasury - Internal Revenue Service

Figure 8. Amount of Fee Known

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Appleton Insurance 5466 Rowden Falling Falls, WI 65555 (318) 778-9988		1 Rents \$	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
		2 Royalties \$		
		3 Other income \$		
PAYER'S Federal identification number 49-0909091	RECIPIENT'S identification number 37-0009999	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and
RECIPIENT'S name Larry Lujack PC Street address (including apt. no.) 45 Park Place City, state, and ZIP code Chicago, IL 60600		6 Medical and health care payments \$	7 Nonemployee compensation \$ 34000	
		8 Substitute payments in lieu of dividends or interest \$	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 \$	11 State income tax withheld \$	

Example 12. Roscoe Boxworthy was selected for the television show *Survivor* and was voted off the first day. For his efforts, Roscoe received \$2,500. This amount will be reported in box 7 of the Form 1099-MISC (Figure 9).

2000 Workbook

Figure 9. For Game Show Awards

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Viacom Inc 1000 Avenue of the Americas New York, NY 10900 (219) 555-5555		1 Rents \$	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
		2 Royalties \$		
		3 Other income \$		
PAYER'S Federal identification number 10-9087654	RECIPIENT'S identification number 010-99-0003	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Roscoe Boxworthy		6 Medical and health care payments \$	7 Nonemployee compensation \$2500.00	
Street address (including apt. no.) #34 Bluffs Road		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
City, state, and ZIP code Olthae, KS 66787		10 Crop insurance proceeds \$	11 State income tax withheld \$	
Account number (optional)		12 State/Payer's state number	13 \$	
Form 1099-MISC		(Keep for your records.)		Department of the Treasury - Internal Revenue Service

Example 13. A corporation pays Dr. Bourbon \$500 to speak on the topic of alcoholism to its employees and gives him \$350 for travel expenses. Dr. Bourbon makes no accounting for his travel. The corporation must issue a Form 1099-MISC to Dr. Bourbon for \$850 (Figure 10). Had the doctor made an accounting to the corporation for his travel, no Form 1099 would be needed, since the speaking fee was less than \$600.

Figure 10. For Unaccounted Travel Reimbursements

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. DeWayne's Discount Hamburgers 109 West Palm, Rear Durham, NC 38800 (876) 545-5555		1 Rents \$	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
		2 Royalties \$		
		3 Other income \$		
PAYER'S Federal identification number 15-0987632	RECIPIENT'S identification number 234-99-5432	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Dr. B. Fine Bourbon		6 Medical and health care payments \$	7 Nonemployee compensation \$850.00	
Street address (including apt. no.) #8 Riverbend Drive		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
City, state, and ZIP code Dayton, Ohio 56875		10 Crop insurance proceeds \$	11 State income tax withheld \$	
Account number (optional)		12 State/Payer's state number	13 \$	
Form 1099-MISC		(Keep for your records.)		Department of the Treasury - Internal Revenue Service

Example 14. Arnold Bluetooth, a real estate property manager, collected \$19,800 in rents for an apartment building that he managed for Glenda Grindes. Arnold's fee was 10%, or \$1,980, and he gave Glenda the net amount of \$17,820. Arnold is required to report the gross amount of \$19,800 on the Form 1099-MISC that he issues to Glenda (Figure 11).

Example 15. Harry Hammer is a building contractor. He subcontracts to do drywall work for Daniel Joseph, a sole proprietor who does business as ABC Drywall. During the year, Mr. Joseph pays Mr. Hammer \$5,500 in cash. ABC Drywall will issue a Form 1099-MISC (Figure 12). Note that Form 1099-

2000 Workbook

MISC includes the telephone number of the payer. Mr. Hammer will report this income on Schedule C, and his profit will be subject to self-employment tax.

Figure 11. For Collected Rents

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Arnold Bluetooth dba Terminal Property Management 14 Noxtom Dr Lexington, KY 45565 (573) 111-5676		1 Rents \$ 19800.00	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
	2 Royalties \$			
	3 Other income \$			
PAYER'S Federal identification number 28-0202665	RECIPIENT'S identification number 281-99-0876	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Glenda Grindes Street address (including apt. no.) 3675 Powder Creek City, state, and ZIP code Twin Peaks, KY 45568		6 Medical and health care payments \$	7 Nonemployee compensation \$	
		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
Account number (optional)		10 Crop insurance proceeds \$	11 State income tax withheld \$	
		12 State/Payer's state number	13 \$	

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Figure 12. For Payments to Sole Proprietor

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Daniel Joseph ABC Drywall 456 Flower Lane Oaktown, VA 22000 (703) 123-4567		1 Rents \$	OMB No. 1545-0115 2000 Form 1099-MISC	Miscellaneous Income
	2 Royalties \$			
	3 Other income \$			
PAYER'S Federal identification number 10-999999	RECIPIENT'S identification number 123-45-6789	4 Federal income tax withheld \$	5 Fishing boat proceeds \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Harry Hammer Street address (including apt. no.) 123 Maple Avenue City, state, and ZIP code Oaktown, VA 22000		6 Medical and health care payments \$	7 Nonemployee compensation \$ 5500.00	
		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
Account number (optional)		10 Crop insurance proceeds \$	11 State income tax withheld \$	
		12 State/Payer's state number	13 \$	

Form 1099-MISC (Keep for your records.) Department of the Treasury - Internal Revenue Service

FORM 1099-S

Form 1099-S reports sales and exchanges of real estate.

Generally, taxpayers are required to report a transaction that consists in whole or in part of the sale or exchange for money, indebtedness, property, or services of any present or future ownership of:

1. Improved or unimproved land, including air space
2. Inherently permanent structures, including residential, commercial, or industrial buildings
3. A condominium unit, including fixtures, common elements, and land

4. Stock in a cooperative housing association as defined by I.R.C. §216

A sale or exchange of real estate includes any transaction treated as a sale or exchange for federal income tax purposes, even if the transaction is not currently taxable. For example, the exchange of commercial property may be reportable even though the owner may be entitled to defer the gain under I.R.C. §1031.

In most cases, the sellers of a principal residence can be exempted from receiving a Form 1099-S if the person responsible for the closing obtains written assurance (certification) from the sellers that the gain is not reportable. The selling price must be \$250,000 or less for a single person and \$500,000 or less for a married couple.

The certification must contain information to support the conclusion that full gain on the sale is excludable from the seller's gross income. Revenue Procedure 98-20 provides sample wording. See page 494 in the 1998 *Farm Income Tax Book* for details.

Practitioner Note. If any part of the home had been used for business during any time during the two-year period that preceded the date of sale, a Form 1099-S will be required.

PERSON REQUIRED TO REPORT

If a uniform settlement statement (as described under the Real Estate Settlement Procedures Act of 1974) is used, the person listed as the settlement agent is responsible for preparing Form 1099-S. If no settlement agent is listed, the 1099-S reporting responsibility shifts to the person preparing the closing statement. If no closing statement is prepared, the person responsible for Form 1099-S preparation is (in order of procedure):

1. The buyer's (or transferee's) attorney, if this individual actively participated in the transaction
2. The seller's (or transferor's) attorney, if this individual actively participates in the transaction
3. The title or escrow company that distributes the most money

If none of the above is responsible for closing the transaction, the person required to file Form 1099-S is, in the order listed:

1. The mortgage lender
2. The seller's broker
3. The buyer's broker
4. The buyer

Practitioner Note. The IRS requires Form 1099-S filers to report in Box 5 the buyer's share of real estate taxes on a personal residence. However, if the seller certifies under I.R.C. §121 that no Form 1099-S is required, this requirement is waived. The tax allocation may be included in the seller's affidavit.

Example 16. John and Mary Burgess sell their personal residence for \$226,750 on June 8, 2000. Their home was never used for business purposes, and they had lived there for 12 years. They originally purchased the home for \$134,500 in 1988. Because the Burgesses provided proper certification, as illustrated (Figure 13), to the title company at closing, no Form 1099-S will be issued. The title company can rely on the seller's certification unless it knows that the buyer assurance is incorrect. The title company must retain certifications for a minimum of four years.

2000 Workbook

Figure 13. Certification that Gain from Real Estate Sale Is Not Reportable

Tax Form 1099-S Required Information

FILE NUMBER: 1572

CLOSING DATE: June 8, 2000

YOU ARE REQUIRED BY LAW UNDER THE TAX REFORM ACT AS AMENDED ON 05/06/97, TO PROVIDE **TITLE INSURANCE** WITH YOUR CORRECT TAXPAYER IDENTIFICATION NUMBER AND FORWARDING ADDRESS. UNDER THE TAX REFORM ACT OF 1986, FAILURE TO PROVIDE THE CORRECT INFORMATION LISTED CAN RESULT IN CIVIL OR CRIMINAL PENALTIES IMPOSED BY LAW.

SELLER(S) NAMES(S): John Burgess

SS#: 322-99-0921

Mary Burgess

SS#: 432-97-0762

FEDERAL TAX ID#: _____

CORRECT FORWARDING ADDRESS: 1065 Hollow Point Court
East Rumford, NJ 16211

REAL ESTATE TYPE: Residence

SELLER TAXES PAID: _____

AMOUNT OF SALE: \$226,750

BUYER TAX PORTION: _____

LIVED IN RESIDENCE TWO OUT OF LAST FIVE YEARS? YES XX NO _____

USED SECTION 121 EXCLUSION IN PAST TWO YEARS? YES _____ NO XX

WHAT PORTION, IF ANY, OF RESIDENCE HAS BEEN USED FOR BUSINESS PURPOSES: NONE

ADDRESS OF PROPERTY SOLD: 8611 Dutchtown Road
West Rumford, NJ 16212

AFFIDAVIT

I (we) am (are) not non-resident alien(s) for purposes of United States Income Taxation and my (our) United States Taxpayer Identifying Number (Social Security Number) is (are) set forth above:

John Burgess

Signature

Mary Burgess

Signature

STATE OF _____
COUNTY OF: _____

I, the undersigned, a Notary Public in and for the State and County aforesaid, do hereby certify that before me personally appeared the above individual(s) whose signature(s) I have witnessed on the above document, this _____ day of _____, _____.

Notary Public

2000 Workbook

Example 17. The city of Chicago condemns property near Wrigley Field (current home of the Chicago Cubs) for a new road. Included in the condemnation proceeds to the owner of the property is interest income earned on the money held as a deposit by the city of Chicago. The municipality is required to issue **two** (2) Forms 1099: a Form 1099-S for the condemnation proceeds, and a Form 1099-INT for the interest income paid to the property owner. The two Forms 1099 are shown in Figures 14 and 15 respectively, below.

Figure 14. For Condemned Property

CORRECTED (if checked)

FILER'S name, street address, city, state, ZIP code, and telephone no. City of Chicago City Hall - 1500 Dearborn Chicago, IL 60669 (312) 888-5555		1 Date of closing 2 Gross proceeds \$ 100000.00	OMB No. 1545-0997 <div style="font-size: 2em; text-align: center;">2000</div> Form 1099-S	Proceeds From Real Estate Transactions
FILER'S Federal identification number 36-0000000	TRANSFEROR'S identification number 345-33-0111	3 Address or legal description 4 Transferor received or will receive property or services as part of the consideration (if checked) . . . ▶ <input type="checkbox"/>		
TRANSFEROR'S name R. Santo Street address (including apt. no.) 8899 Addison Avenue City, state, and ZIP code Chicago, IL 60700		5 Buyer's part of real estate tax \$		Copy B For Transferor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.

Form 1099-S (Keep for your records.) Department of the Treasury - Internal Revenue Service

Figure 15. For Interest on Deposit by Owner of Condemned Property

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. City of Chicago City Hall - 1500 Dearborn Chicago, IL 60669 (312) 888-5555		Payer's RTN (optional)	OMB No. 1545-0112 <div style="font-size: 2em; text-align: center;">2000</div> Form 1099-INT	Interest Income
PAYER'S Federal identification number 36-0000000	RECIPIENT'S identification number 345-33-0111	1 Interest income not included in box 3 \$ 8200.00		
RECIPIENT'S name R. Santo Street address (including apt. no.) 8899 Addison Avenue City, state, and ZIP code Chicago, IL 60700		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (optional)		4 Federal income tax withheld \$	5 Investment expenses \$	
Account number (optional)		6 Foreign tax paid \$	7 Foreign country or U.S. possession	

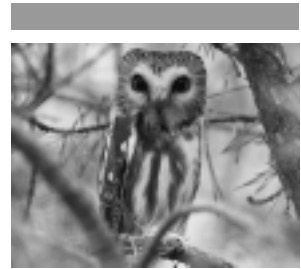
Form 1099-INT (Keep for your records.) Department of the Treasury - Internal Revenue Service

2000 Workbook

Guide to Information Returns

(If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.)

Form	Title	What To Report	Amounts To Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-A	Acquisition or Abandonment of Secured Property	Information about the acquisition or abandonment of property that is security for a debt for which you are the lender.	All amounts	February 28	(To Borrower) January 31
1099-B	Proceeds From Broker and Barter Exchange Transactions	Sales or redemptions of securities, futures transactions, commodities, and barter exchange transactions.	All amounts	February 28	January 31
1099-C	Cancellation of Debt	Cancellation of a debt owed to a financial institution, the Federal Government, a credit union, RTC, FDIC, NCUA, a military department, the U.S. Postal Service, the Postal Rate Commission, or any organization a significant trade or business of which is lending money.	\$600 or more	February 28	January 31
1099-DIV	Dividends and Distributions	Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock, and liquidation distributions.	\$10 or more, except \$600 or more for liquidations	February 28	January 31
1099-G	Certain Government and Qualified State Tuition Program Payments	Unemployment compensation, state and local income tax refunds, agricultural payments, taxable grants, and earnings from a qualified state tuition program (QSTP).	Any amount for a QSTP; \$10 or more for unemployment and tax refunds; \$600 or more for all others	February 28	January 31
1099-INT	Interest Income	Interest income.	\$10 or more (\$600 or more in some cases)	February 28	January 31
1099-LTC	Long-Term Care and Accelerated Death Benefits	Payments under a long-term care insurance contract and accelerated death benefits paid under a life insurance contract or by a viatical settlement provider.	All amounts	February 28	January 31 (To Insured and Policyholder)
1099-MISC	(Also, use this form to report the occurrence of direct sales of \$5,000 or more of consumer goods for resale.)	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties	February 28	January 31
		Payments to crew members by owners or operators of fishing boats including payments of proceeds from sale of catch.	All amounts		
		Payments to a physician, physicians' corporation, or other supplier of health and medical services. Issued mainly by medical assistance programs or health and accident insurance plans.	\$600 or more		
		Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to subcontractors or directors, and golden parachute payments.	\$600 or more		
		Fish purchases for cash.	\$600 or more		
		Substitute dividend and tax-exempt interest payments reportable by brokers.	\$10 or more		
		Crop insurance proceeds.	\$600 or more		
		Gross proceeds paid to attorneys.	All amounts		
1099-MSA	Distributions From an MSA or Medicare+Choice MSA	Distributions from a medical savings account (MSA) or Medicare+Choice MSA.	All amounts	February 28	January 31
1099-OID	Original Issue Discount	Original issue discount.	\$10 or more	February 28	January 31
1099-PATR	Taxable Distributions Received From Cooperatives	Distributions from cooperatives to their patrons.	\$10 or more	February 28	January 31
1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from retirement or profit-sharing plans, any IRA, or insurance contracts, and IRA recharacterizations.	\$10 or more	February 28	January 31
1099-S	Proceeds From Real Estate Transactions	Gross proceeds from the sale or exchange of real estate.	Generally, \$600 or more	February 28	January 31



2000 Income Tax School

GIFTING

Estate and Gift Taxes	72	Income Taxes	89
Similarities	72	Income from the Gift	89
Differences	77	Carryover Basis	90
Educational or Medical Expenses	81	Selected Estate Planning Tools	97
Estate Tax Provisions for Family-Owned Businesses	83	Remainder Trusts	97
Filing Gift Tax Returns	83	Family Limited Partnerships	99
Introduction to Application of the Generation- Skipping Tax	88	Appendix A	99
Generation-skipping Transfers	88	Appendix B	100
Tax Imposed	89		