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Newsletter

October 2020

October Due Dates

October 15 - Individuals

If you requested an automatic extension by July 15 to file your income tax return for 2019, file Form 1040 and pay any tax, interest, and penalties due.

October 15 - Corporations

File a 2019 calendar year income tax return (Form 1120 or 1120-A) and pay any tax, interest, and penalties due. This due date applies only if you timely requested an additional 3-month extension by July 15th.

Still Waiting for the IRS to Cash Your Check?

During the COVID-19 pandemic, the IRS has furloughed many of its employees or had them work from home to mitigate the spread of the virus. Many IRS offices remained shuttered for months, and a backlog of millions of pieces of unopened mail accumulated in trailers set up outside IRS facilities.

This includes unopened mail with payment checks, which creates a problem for many e-filed returns with tax due because the IRS computer shows a tax return filed but no payment made. Because the IRS utilizes a significant amount of automation, its computers began automatically spitting out tax-due notices, including to those who had mailed in payments. While most IRS facilities have reopened and IRS employees have returned to work, it will take them weeks, if not months, to get all of the backlogged mail opened and processed.

After receiving complaints from taxpayers and members of Congress, the IRS put information on its website about these outstanding payments: the payments will be posted as of the date when they were received by the IRS, not the date when the Service processes them. In most cases, this will eliminate or minimize penalties and interest for late payments. So, if you mailed a check to the IRS that has yet to clear your bank, with or without a return, the IRS says that you should not cancel or put a stop-payment on the check. However, you should be sure that you have adequate funds in the account from which the check was written, so that the check will clear when the IRS does process it.

Normally, the penalty for a dishonored payment (a bounced check) of over \$1,250 is 2% of the amount of the check, money order, or electronic payment. If the amount is \$1,250 or less, the penalty is the amount of the check, money order, or electronic payment, or \$25, whichever is lower.

To provide fair and equitable treatment during the COVID-19 emergency, the IRS is providing relief from bad-check penalties. The dishonored payment penalty will be waived for dishonored checks that the Service received between March 1 and July 15 due to delays in IRS processing. However, interest and other penalties may still apply.

The IRS has also decided to suspend mailing certain tax-due notices to taxpayers temporarily until the unopened mail backlog is cleared up. If you have received a tax-due notice but know that you already paid the tax, the IRS asks that you wait to contact it about any unprocessed paper payments that are still pending.

So, for now, taxpayers who have uncashed payments need to be patient. There's no reason to send additional correspondence to the IRS that would just be added to the mountains of unopened mail, and due to high call volumes, phoning the IRS will be of little use at this time. If you have any further questions, please give this office a call.

Ready for the 1099-NEC?

The Internal Revenue Service has resurrected a form that has not been used since the early 1980s, Form 1099-NEC (the NEC stands for non-employee compensation). This form will be used to report non-employee compensation in place of the 1099-MISC, which has been used since 1983 to report payments to contract workers and freelancers. Form 1099-MISC has also been used to report rents, royalties, crop insurance proceeds and several other types of income unrelated to independent contractors.

The revival of the 1099-NEC was mandated by Congress with the passage of the PATH Act back in 2015. However, there have been some complications with implementing the form, so its use has been delayed. It will now make its return debut in 2021 for payments made in 2020.

The reason for the change is to control fraudulent credit claims—primarily for the earned income tax credit (EITC), which is based on earned income from working. Scammers were filing tax returns before the normal February 28 due date for 1099-MISC, which does not give the IRS the time to cross-check the earned income claimed in the returns. As a stopgap measure, 1099-MISC filings that included non-employee compensation were required to be filed by January 31, the same due date as W-2s, another source of earned income. By using the 1099-NEC for non-employee compensation, the IRS will be able to eliminate the problems created by having two filing dates for the 1099-MISC.

As a result, the 1099-MISC has also been revised, and Box 7—where non-employee compensation used to be entered—is now a checkbox for “Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale.” Other boxes after Box 7 have also been reorganized.

The 1099-NEC is quite simple to use since it only deals with non-employee compensation, which is entered in Box 1, and there are entries for federal and state income tax withholding.

7171 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Z Builders 123 Maple Avenue Oaktown, AL 00000 555-555-1212		OMB No. 1545-0116 2020 Form 1099-NEC		Nonemployee Compensation		
PAYER'S TIN 10-9999999		RECIPIENT'S TIN 123-00-6789				
RECIPIENT'S name Ronald Green dba/ Y Drywall		3		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.		
Street address (including apt. no.) 456 Flower Lane		4 Federal income tax withheld \$				
City or town, state or province, country, and ZIP or foreign postal code Oaktown, AL 00000		FATCA filing requirement <input type="checkbox"/>				
Account number (see instructions)		2nd TIN not. <input type="checkbox"/>		5 State tax withheld \$		7 State income \$
				6 State/Payer's state no. \$		\$

Form 1099-NEC Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

If you operate a business and engage the services of an individual (independent contractor) other than one who meets the definition of an employee, and you pay him or her \$600 or more for the calendar year, you are required to issue the individual a Form 1099-NEC soon after the end of the year to avoid penalties and the prospect of losing the deduction for his or her labor and expenses in an audit.

The due date for filing a 1099-NEC with the IRS and mailing the recipient a copy of the 1099-NEC that reports 2020 payments is February 1, 2021. (Normally the due date is January 31, but because that date falls on a weekend next year, the due date becomes the next business day, February 1, 2021.)

It is not uncommon to have a repairman out early in the year, pay him less than \$600, then use his services again later in the year and have the total for the year exceed the \$599 limit. As a result, you may have overlooked getting the information from the individual needed to file a 1099 for the year. Therefore, it is good practice to always have individuals who are not incorporated complete and sign an IRS Form W-9 the first time you engage them and before you pay them. Having a properly completed and signed Form W-9 for all independent contractors and service providers eliminates any oversights and protects you against IRS penalties and conflicts. If you have been negligent in the past about having W-9s completed, it would be a good idea to establish a procedure for getting each non-corporate independent contractor and service provider to fill out a W-9 and return it to you going forward.

IRS Form W-9, Request for Taxpayer Identification Number and Certification, is provided by the government as a means for you to obtain the vendors' data you'll need to accurately file the 1099s. It also provides you with verification that you complied with the law in case a vendor gave you incorrect information. We highly recommend that you have potential vendors complete a Form W-9 prior to engaging in business with them. The W-9 is for your use only and is not submitted to the IRS.

The penalties for failure to file the required informational returns are \$280 per informational return. The penalty is reduced to \$50 if a correct but late information return is filed no later than 30 days after the required filing date or it is reduced to \$110 for returns filed after the 30th day but no later than August 1, 2021. If you are required to file 250 or more information returns, you must file them electronically.

In order to avoid a penalty, copies of the 1099-NECs you've issued for 2020 need to be sent to the IRS by February 1, 2021. They must be submitted on magnetic media or on optically scannable forms (OCR forms).

This firm prepares 1099s for submission to the IRS. We provide recipient copies and file copies for your records. Use the 1099 worksheet to provide this office with the information needed to prepare your 1099s.

Do You Know Unemployment Benefits Are Taxable?

With the passage of the CARES Act stimulus package earlier this year, the federal government added \$600 to the normal state weekly unemployment benefits and increased the number of benefit weeks to a total of 39.

In many cases, workers are receiving unemployment benefits for the first time in their lives, and they may not be aware that the benefits are fully taxable for federal purposes. Potentially making matters worse is that most states also tax unemployment benefits. This may come as a surprise with a potentially unpleasant outcome for many when it comes time to file their 2020 tax return next year.

Those who received unemployment benefits will be sent a Form 1099-G (Certain Government Payments) from the state that paid the benefits. This tax form shows the amount of unemployment benefits received and the amount of tax withheld, if any.

There are several states where unemployment benefits are not taxable. Seven states do not have a state income tax, so obviously, unemployment benefits are not taxable in those states, which are:

- Alaska
- Florida
- Nevada
- South Dakota
- Texas
- Washington
- Wyoming

Seven states have state income tax, but do not tax employment benefits. They include:

- California
- Montana
- New Hampshire
- New Jersey
- Oregon
- Pennsylvania
- Tennessee
- Virginia

Two states exempt 50% of amounts above \$12,000 (single taxpayer) or \$18,000 (married taxpayers). They are:

- Indiana
- Wisconsin

If you've collected unemployment compensation this year, your benefits' impact on your tax bill will depend on a number of factors, including the amount of unemployment received, what other income you have, whether you are single or married (and, if married, whether you and your spouse are both receiving unemployment benefits), and whether you had or are having income tax withheld from benefit payments.

If you have questions about the taxation of unemployment compensation, please give this office a call.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Scott Jensen
Kramer & Jensen, LLC

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