



Date: December 20, 2016

To: Bookkeepers and Business Managers

From: Julie Mahaney & Linda Topf, Parish Accounting

Re: 1099-Misc/1096 Requirements & Instruction – Note: New Filing Requirement to IRS

This memo was put into place several years ago to provide instruction that will assist you throughout the year so you will be prepared for filing the 1099-Misc, W-2G and 1096s at calendar year end. If you keep up with the necessary tasks to identify your 1099-Misc independent contractors throughout the year, printing the forms will be quick and easy.

Note: As mentioned in our *Year End Tax Information* memo, beginning with forms for tax year 2016, **the deadline for filing Copy A of the 1099-Miscellaneous and the 1096 to the Internal Revenue Service (IRS) has changed, these must now be filed by January 31** (the due date was previously February 28). The Recipient Copy B of the 1099-Misc is still due by January 31. **We recommend you issue Copy B to the contractors by January 13.** This allows you time to make any needed corrections before sending the forms to the IRS.

It's important that you understand these IRS requirements. As bookkeeper you are responsible for correctly issuing the 1099s, 1096, and W-2Gs. Keep in mind in doing so that you should only pay the person that performed the service. You should not pay family members or other persons to avoid reaching the \$600 limit as this avoids taxation. The only way an unincorporated independent contractor should not be issued a 1099 is if their annual pay is less than \$600. These forms are not optional and you should not make any exceptions!

First, know who is required to receive an IRS Form 1099-Miscellaneous.

Each independent contractor (whether an individual or business) that the location pays at least \$600 in services (**i.e., labor, parts, materials**), that is not incorporated, and is not an employee of the parish, is required to receive a 1099. Examples include: Extra clergy that perform mass coverage, snow removal, mowing, grounds maintenance, church and property repairs (e.g.,

painting, boiler service, upkeep, restoration, etc.), musician services (e.g., organists, cantors), professional services (e.g, bookkeeping/accounting, computer support, architects), other contracted services (e.g., cleaning, janitorial, housekeeping). It's important that you identify any contractors that are paid for services from all of your accounts including cemetery, parish and school sponsored accounts, etc. Ideally these costs should be made from the parish.

Note #1: If you are paying an individual an hourly wage, he/she most likely is an employee and should be paid via payroll, with taxes withheld and a W-2 issued at year end.

Note #2: If an employee performs extra services for the parish, this should be paid via payroll reduced by applicable taxes. Bonuses and larger gifts to employees, including teachers should also be paid via payroll. If paid via a vendor check, it may be necessary to issue a 1099-Misc.

Note #3: Employees are covered under the location's property and liability insurance.

Independent contractors must have their own insurance, i.e., be bonded.

How is it determined if an independent contractor is incorporated?

Always obtain an IRS Form W-9, Request for Taxpayer Identification Number and Certification, from each independent contractor before the contractor is paid. If the W-9 is requested after the contractor is paid, it is often difficult to obtain. If you have independent contractors that you have been issuing 1099s to and do not have a W-9 on file, you should obtain the W-9 to keep on file. The W-9 lists the contractor's tax classification, tax identification number and/or social security number, and legal business and doing business name as shown on their income tax form. If the 1099 differs from the information the IRS has on file, the IRS will issue a B-Notice that requires immediate attention. You only need to obtain the W-9 once. As long as the contractor's name, filing status, etc. stays the same, you don't need to obtain a new form each year.

The W-9 can be print from QuickBooks under Employees, Employee Forms and is also available on the diocesan website, www.scdiocese.org. Select Parishes – Parish Communication – Parish Bookkeeper Manual – Forms – W-9-Request for TIN. You will also note a W-9 Sample Request letter that you can download and amend to include your location's information. This is an explanation letter to send with the W-9 to assist the contractor in completing the W-9. The W-9 is also available on the IRS website, www.irs.gov.

Can 1099s be print from QuickBooks?

In this day and age, we strongly encourage you to complete the 1099s and 1096 in an electronic format, i.e., from QuickBooks. The IRS views the tax forms as not being authentic and easy to de-fraud when they come handwritten or in another manual format. Printing the forms from QuickBooks is easier and more accurate than preparing manual forms. QuickBooks prepares these forms automatically for you. Keep in mind, however that you are responsible for populating the vendor records with the correct information and accurately setting up the preferences in QuickBooks. Further instruction on this is addressed below.

How should the vendor record in QuickBooks be set up to identify the vendor as eligible?

In QuickBooks, for each independent contractor, select Vendors – Vendor Center and then click on the vendor. Note that you should not be setting vendors up as the “other name” type. These do not appear when you are running the 1099s. If you need to add a new vendor, select New Vendor at the top left of the screen. Key all personal information from the W-9 into the “Address Info” tab. If a company and individual name are listed on the W-9, include both in the vendor record. Also if a legal business name and doing business as name are included, include both names. You can identify the name you want printed on the check in the “Payment Settings” tab. Select the “Tax Settings” tab and enter the tax ID number. For individuals and sole proprietors, this will be the Social Security Number (SSN). Place a checkmark in the “Vendor eligible for 1099” box. Select OK.

How are the 1099s & 1096 prepared in QuickBooks?

In addition to setting the vendor up correctly in QuickBooks, the preferences also need to be set up correctly so accurate data will appear on the 1099. There are a couple ways to do this in QuickBooks. We will take you through the 1099 Wizard as this is the simplest. In QuickBooks, select Vendors – Print/e-file 1099s – 1099 Wizard.

1. Select “Get Started”.
2. Select your 1099 Vendors – the vendors that you set up for a 1099-Misc will have a checkmark in the field “Create Form 1099-Misc”. Scroll down the list for other vendors you may have missed and put a check mark next to those you missed. Select Continue.
3. Verify your 1099 Vendors’ Information – Edit vendor information as needed. Continue.
4. Map Vendor Payment Accounts – The top right will say “Show 1099 accounts”. In the dropdown, change this to “Show all accounts”. Scroll down the list of accounts to determine which accounts have 1099 payments. In the field to the right “Apply payments to this 1099 box”, change where it says “Omit these payments from 1099” to “Box 7: Nonemployee Compensation”. Note that Box 7 is the only field you should be using. To ensure you don’t miss an account, you can put a checkmark in the box to the left middle of the screen that says “Report all payments in Box 7”. Select Continue.
5. Review Payments for Exclusions – View included payments and excluded payments for reasonableness. Select Continue.
6. Confirm your 1099 Entries – Review this summary of vendors that you are creating Form 1099-Misc for and ensure the total included on the 1099 is accurate and in Box 7. If any unmapped payments are noted, review for reasonableness. It may be possible that you missed mapping an account and will need to go back and fix this. Select Continue.
7. Before Proceeding, you will want to view the 1099 Summary Report. Select Vendors – Print/e-file 1099s – 1099 Summary Report. The dates should reflect “This Calendar Year”. You may note amounts that are shown as zero. The amount is listed as zero when the total amount paid to the contractor in the calendar year is less than \$600. Print a copy of the summary report for your records. Then proceed to #8 below in the 1099 Wizard.

8. Choose a Filing Method – select Print 1099s (note that you should have either requested pre-printed 1099 and 1096 forms from the chancery office in November/December or obtained these forms from a local CPA, accountant or supply store. Note that you can E-file forms for a fee, however we are not providing instructions for that at this time.
9. A pop-up screen will appear “Printing 1099-Misc and 1096 Forms”, ensure the date range reflects “This calendar year”, for instance 1/1/16 to 12/31/16. Select OK.
10. A pop-up screen will appear “Select Vendors to Print 1099-Misc/1099 Forms”. Review the list and ensure the Valid ID and Valid Address fields each say “Yes”. This is required information. If any say “No”, you will need to add the applicable information into the vendor record before proceeding. Ensure the number of vendors and total contracted costs for the vendors agrees with the 1099 Summary Report in step #7.
11. Select Preview 1099, you will note the 1099s appear two on a page. Select “Next Page” reviewing each for accuracy and reasonableness. Once complete Select Close.
12. You will now need to place the government pre-printed 1099s forms in the printer. We recommend you first print on Copy C, the Payer or State copy to ensure these print properly. Select Print 1099.
13. On the “Print 1099s screen, ensure your printer is identified and select Print.
14. Once complete, print the Copy B and then the Copy A 1099s.
15. Next place the government pre-printed 1096 form in the printer. Select Print 1096.
 - a. You do not have the option to preview the 1096 before printing. If you want to view it first, print it on plain paper.

Is it acceptable to use Box 3: Other Income instead of Box 7?

As mentioned, Box 7 is for nonemployee compensation. Box 3 should only be used for prizes and awards that are not for services performed, not for employees, and do not involve a wager. Employee prizes are reported on the W-2, prizes with a wager are reported on the W-2G.

How are 1099s distributed to the vendors/independent contractors and IRS?

- Copy B of Form 1099-Misc is due to the recipient by January 31th. As mentioned, use January 13th as a target date due to the new IRS filing deadline.
- Sign and date Form 1096 and make a copy for your records. Keep Copy 2-payer or state income for your records.
- Copy A of Form 1099-Misc and Form 1096 is due to the IRS by January 31st. Identify the date you mailed this to the IRS on your copy of the 1096.
- The W-2Gs and related 1096 is due to the IRS by February 28th. The W-2G should have been given to the winner when the prize was awarded. If it was not, issue by January 31. Note that this Form 1096 is a separate Form from the one that was sent with the 1099s.

For IRS info, see the 1099 instructions at <http://www.irs.gov/pub/irs-pdf/i1099msc.pdf>.

Feel free to contact Julie at 712-233-7515 or juliem@scdiocese.org or Linda at 712-233-7593 or lindat@scdiocese.org with questions.