

On April 15, 2011, President Obama signed into law the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (HR 4; 1099 Act). This new law may have a direct impact on you and your business. We have summarized some of the important changes that will become effective for 2011, and outlined the procedures that you should follow. **There are significant fines for failure to file properly completed forms, so please be sure to follow the guidelines outlined herein.** The information contained in this letter, as well as more detailed information on HR 4, can be found at www.irs.gov.

The Good News:

The new reporting requirement for rental property expense payments was repealed by HR 4. If you own or manage rental properties, you **will not** be required to report payments you made for rental property expenses in 2011.

What you should do:

- If you are a Contractor or Business Owner, you must complete a 1099-MISC Form in all of the following cases:

What to Report	Amounts to Report	IRS Due Date	Payee Due Date
Direct sales of consumer goods for resale.	\$5,000 or more		
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 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	February 28*	January 31**
Gross proceeds paid to attorneys.	\$600 or more	February 15**	January 31**
Payments to crew members by owners or operators of fishing boats including payments of proceeds from sale of catch.	All amounts	February 28*	January 31**
Substitute dividends and tax-exempt interest payments reportable by brokers.	\$10 or more	February 28**	February 15**
Fish purchases paid in cash for resale.	\$600 or more	February 28*	January 31**
Crop insurance proceeds.	\$600 or more	February 28**	January 31**

- Be diligent about collecting properly completed W-9 forms *before* making a payment to any subcontractor or payee. You need the W-9 Form so that you can complete the required 1099.
- If a payee does not provide a correct TIN (Social Security Number (SSN) or Employer Identification Number (EIN)), **you are required to backup withhold at a rate of 28% for the IRS, and 7% for California.**
- File properly completed 1099s on time to avoid state and federal penalties.
- If you are unable to file your information returns on time, a 30-day extension may be available by completing Form 8809.
- If you are required to backup withhold, or if you are making payments to foreign persons, please contact our office for more information.

Penalty Increases:

The penalties for failure to file correct information returns and payee statements (1099s/W-2s) were considerably increased for both Federal and State returns.

1099 penalties apply for:

- Failure to file timely;
- Failure to include all required information and/or failure to include correct information;
- Providing an incorrect TIN (Taxpayer Identification Number);
- Failing to report a TIN; and
- Filing paper returns when required to file electronically*

* Electronic filing is encouraged for all filers, but is required when 250 or more information returns of any type are filed.

The Federal increased penalties range from \$30 to \$100 per return, with the maximum penalty ranging from \$75,000 to \$500,000 per year for a small business. California authorized a \$50 per form penalty, in addition to applying the maximum California personal income tax rate (currently 9.3%) to the unreported amount.

CP2100 and CP2100A Notices:

The IRS generates these notices to payers who have missing and/or incorrect TINs on their submitted 1099's. There are specific procedures that must be followed to provide the missing TIN, or to update the incorrect TIN. You should begin backup withholding immediately, and contact our office for further instructions. For additional help with correcting errors on information returns, refer to the chart in the irs.gov web site, 'Filing Corrected Returns on Paper Forms' to determine which action should be taken.

Reminders:

- Logos, slogans, and advertising will not be permitted on Forms 1096, or Copy A of Forms 1097, 1098, 1099, 5498, W-2G, 1042-S, or any payee statements. For exceptions, see Pub. 1179.

How We Can Help:

As part of your tax preparation services, we are available to answer all of your tax and IRS questions at any time. Please feel free to contact our office, we will be glad to help. As an additional service, our Bookkeeping department is available to complete all the information reporting forms required for your business. If you would like more information on this service, please feel free to contact our office. As always, we appreciate your continued patronage.

Sincerely,

Damon Simpson