



December 29, 2023

Importance of Form 1099

Every business entity which has paid commission, fee, service charge (including parts and materials), rent, interest, or pension during the year must issue **Form 1099** to every payee by **January 31st** of the following year and report to IRS by the end of January except for those payments made to material suppliers.

Form 1099 must be issued to a recipient (a person or an entity) when any of the following circumstances exist:

1. At least **\$600**, whether aggregated or not, in a year was paid as commission, fee, service charge, rent, or etc. to a recipient
2. Direct sales of at least \$5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment
3. Payments were made to independent contractors or subcontractors.
4. Gross proceeds of \$600 or more paid to an attorney
5. At least \$10 whether aggregated or not, in a year was paid as interest, dividend, royalties or pension to a recipient

Recently IRS has placed stricter regulation on auditing Form 1099 issuance and began penalizing taxpayers (payer) for non-compliance. For any reasons you did not file Form 1099, **\$50 ~ \$550** per form penalty could be imposed to the payer. Furthermore, expenses not backed up by Form 1099s can be disallowed by government auditors.

You must withhold **28%** of gross payments under following circumstances:

1. Failure to furnish TIN in the manner required
2. Notice from IRS that payee's TIN is incorrect
3. Notice from the IRS that payee is subject to backup withholding due to notified payee underreporting
4. Payee's failure to certify that he or she is not subject to backup withholding

The amounts withheld should be submitted by filing **Form 945** (Annual Return of Withheld Federal Income Tax) by **January 31st of the following year**.

It is important that you as a payer to collect **Form W-9** prior to making the first payment to a recipient. If you do not have all Form W-9s, you should try collecting them before the year end and provide us with copies.

You may download Form W-9 from the following IRS link:

<http://www.irs.gov/pub/irs-pdf/fw9.pdf>



CHOI HONG LEE & KANG LLP
Certified Public Accountants & Consultants

3435 Wilshire Blvd., Suite 480, Los Angeles, CA 90010 T: (213) 365-1700

1 Centerpointe Dr., Suite 350, La Palma, CA 90623 T: (714) 676-8100

3820 Del Amo Blvd., Suite 220, Torrance, CA 90503 T: (310) 542-6373

WWW.CHLKCPA.COM

1099-K reduced threshold delayed to 2024

Last year we informed that individuals, partnerships, LLCs, and corporations that earn more than \$600 through third-party payment networks and online marketplace like Venmo, PayPal, Amazon, Square, eBay, Esty, etc. would start receiving Form 1099-K, Payment Card and Third-Party Network Transactions, on which that income will be reported to themselves and the IRS if the amount received exceeds \$600 in one year.

This new tax reporting threshold of \$600, which was generally designed to increase tax compliance, was supposed to go into effect originally from 2022. This was delayed to go into effect from 2023. However, it was once again delayed by the IRS due to concerns over confusion for online sellers and payment processors.

As for 2023, the pre-existing threshold will remain – more than 200 transactions that exceed \$20,000 in income – for sending 1099-Ks in early 2024.

“Given the complexity of the new provision, the large number of individual taxpayers affected, and the need for stakeholders to have certainty with enough lead time,” the IRS says it is planning for a threshold of \$5,000 for the year 2024 as a part of a phase-in to implement the \$600 reporting threshold.