The Past, the Present, and the Future of the 1099-NEC & 1099-MISC Tax Forms

The IRS has recently released the draft version of the 1099-NEC "Nonemployee Compensation" tax form. 1099 Pro outlines the intertwined history and separation of the 1099-MISC & 1099-NEC tax forms along with potential federal and state impacts.

LOS ANGELES (PRWEB) August 01, 2019 -- 1099 Pro, Inc., 1099pro.com, the market-leading provider of information-reporting solutions, software, and services for 1099, W-2, 1042-S, ACA, 8966 and CRS Filers, outlines the intertwined history and separation of the 1099-MISC & 1099-NEC tax forms along with potential federal and state impacts.

The IRS released the draft version of Form 1099-NEC for Nonemployee Compensation on Wednesday, July 24, 2019. Currently, Filers report nonemployee compensation - commonly referred to as NEC - on Box 7 of Form 1099-MISC "Miscellaneous Income." However, recent developments of different reporting deadlines and e-filing requirements for NEC and non-NEC amounts on Form 1099-MISC have proven challenging. Thus, the IRS has moved to reintroduce Form 1099-NEC as the solution to these issues.

History of Non-Employee Compensation
In Tax Year 1983, the IRS eliminated Form 1099-NEC and shifted nonemployee compensation reporting to Form 1099-MISC. True to its name, the 1099-MISC became a catchall for various forms of miscellaneous income including nonemployee compensation, rents, royalties, fishing boat proceeds, and more. This reporting format existed as the status quo for the next 30-plus years.

Flash forward to Tax Year 2017, when the IRS instituted revised filing deadlines for 1099-MISC forms with nonemployee compensation (NEC). Such NEC amounts, reported in Box 7, were due January 31st whether filed on paper or electronically. All other amounts continued to be due February 28th, if filed on paper, or March 31st, if filed electronically.

This one form, multiple-deadlines, approach created tremendous complexity and confusion for both software vendors and 1099 filers. The IRS immediately updated Form 8809, Application for Extension of Time to File Information Returns, to include a separate line item for extending the NEC deadline - only to disallow the automatic extension the following year. The IRS then compounded matters in Tax Year 2018 by requiring the separate filing of NEC and non-NEC 1099-MISC forms. This was a decisive turning point wherein the IRS was effectively requiring NEC data be submitted as a standalone form. It thus comes as welcome surprise that the IRS redrafted the previously decommissioned 1099-NEC tax form.

When Does The New 1099-NEC Go Into Effect?
The 1099-NEC is scheduled to go into effect in Tax Year 2020. However, as with all IRS draft forms and regulations, much work is necessary before the formal adoption of the form. To date, the IRS draft instructions for the 1099-NEC are not publicly posted.

Potential Implications of The 1099-NEC Form
The implications of the new 1099-NEC tax form are far-reaching and can be fully analyzed once further IRS instructions and guidance are posted. Laura Rothman, Service Bureau Coordinator at 1099 Pro, details some anticipated consequences including:
Existing 1099-MISC - The Box 7, Nonemployee Compensation, and Box 9 checkbox will most likely be removed from the existing 1099-MISC tax form.

Payment/Source System - May have to be able to separate the 1099-NEC data, from the 1099-MISC, for reporting on the new tax form.

State Withholding and Income - Filers may have to isolate the amount of state withholding and income that is solely related to Nonemployee Compensation instead of all the applicable boxes and categories on the 1099-MISC.

Federal Reporting - The 1099-MISC is the 2nd most commonly used tax form (2nd to only the 1099-B) and Box 7 nonemployee compensation was the most used box on the form. The IRS will almost certainly add the 1099-NEC to the Combined Federal/State Filing (CFSF) Program and coordinate the forwarding of the 1099-NEC data to the states in place of the 1099-MISC.

State Reporting - It is yet to be seen how individual states will react to this new IRS tax form. Many state regulations center around the 1099-MISC and will need to be updated if the nonemployee compensation, and applicable state withholding, is moved to the 1099-NEC.

Increased Penalties & State Direct Reporting
According to Michael Stewart, Director of State Compliance at 1099 Pro, “The reintroduction of 1099-NEC indicates that the IRS is serious about nonemployee compensation reporting and that their efforts to receive NEC data earlier, in January, has made a dent in stolen identity refund fraud. By separating out the nonemployee compensation amount onto the 1099-NEC, the IRS will be in a better position to penalize late Filers and decline penalty abatement letters that claim confusion and hardship over the dual reporting deadlines.”

“In standard fashion, the states will need to fall in line behind the IRS for the reporting of this new 1099-NEC tax form. Many states receive their state specific nonemployee compensation data through the IRS Combined Federal/State Filing (CFSF) Program, where the IRS forwards data to the states, or via a direct reporting mechanism that mimics the IRS electronic format. This would all be subject to change and the infrastructure for adding a new form to the IRS CFSF Program, as well as for reporting a new form type directly to certain states, would need to be built out.”

As outlined by Michael Stewart at 1099 Pro, it is apparent that there are significant infrastructure and communication hurdles that must be bridged in order to ensure a seamless transition to the 1099-NEC tax form on both federal and state levels.

1099 Pro Support and Integration For The 1099-NEC
The 1099 Pro Compliance Team will fully integrate 1099-NEC into all applicable 1099 Pro software and services. 1099 filers can rest easy knowing that the 1099-NEC tax form will be supported by the 1099 Pro software and the 1099 Pro Service Bureau for printing, mailing and e-filing.

Additionally, interested parties should continue to follow the 1099 Pro website articles, newsletters, and conferences for continued updates and information regarding the 1099-NEC and other information return reporting updates!
On a more immediate note, 1099 Pro’s [2019 1099 software](#) is slated for release in early August. New or interested customers can install a demo version that can be seamlessly converted upon purchase. Professional, Enterprise, and Corporate Suite software versions - in single and multi-user installs - are available to meet all users’ needs and will integrate the 1099-NEC, once finalized by the IRS. Extensive product and technical support is readily available and always complimentary!

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Since 1989, 1099 Pro, Inc. has produced industry-leading tax reporting software for 1099, W-2, 1042-S, ACA 1095, FATCA 8966 forms. 1099 Pro software imports data from Excel or Text files, and also processes printing, electronic filing, and corrections. 1099 Pro’s hosting and data facilities are SSAE SOC I Type II certified and annually audited for security purposes
Contact Information
Support
1099 Pro, Inc.
http://https://www.1099pro.com
+1 (888) 776-1099

Laura Rothman

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