

DAVID A. LAUER & CO., INC.

CERTIFIED PUBLIC ACCOUNTANTS

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Never Underestimate the Value

*Member American
Institute of Certified
Public Accountants*

*Member NJ State
Society of Certified
Public Accountants*

December 15, 2011

Dear Client,

With December upon us, we would like to remind you of the rules and regulations with respect to **the issuance of 1099s**. It is your responsibility as a business owner to comply with the reporting requirement as it pertains to such payments. The attached summary is indicative of the most common 1099 reporting situations, however there are additional scenarios that require reporting. If you need assistance in determining filing necessity, please call us for more specific information.

The filing of 1099s is becoming a more closely scrutinized area with the IRS as they are constantly looking for revenue sources and 1099 compliance has been an area of abuse in the past. The penalties associated with noncompliance can range from \$30 - \$100 per 1099 for failure to file properly and can reach as high as \$250 per 1099 if the IRS determines there is intentional disregard of the filing requirement. Additionally, under IRS audit, subcontractor expenses could be denied without accurate 1099 documentation resulting in a more significant impact.

We are enclosing the IRS Form W-9 to assist you in collecting pertinent information related to 1099 preparation. Technically, this form should be completed and on file for all potential 1099 recipients **prior** to the issuance of any non-employee payments for services made in the course of your trade or business. In fact, if you do not have the TIN for the recipient on file, you are required to withhold federal taxes of 28% from the payment and forward this money to the federal government on their behalf. In case you have 1099 recipients currently receiving payment from your business without this document on file, we would suggest that you forward this form to them as soon as possible for completion to remain compliant.

In order for our office to prepare 1099s for you, we will need you to forward us a copy of all W-9 forms associated with reportable payments along with the dollar amounts of the payments made during the 2011 calendar year. We will be unable to complete the 1099s without this information. We must receive the necessary filing information no later than **January 15, 2012** in order to comply with the IRS filing deadline.

As always, if you need further assistance with any of the above information, please feel free to contact our office or email Linda Gerhart at lgerhart@lauer-millencpa.com. Thank you in advance for your time in gathering this detail. Our goal is to keep you compliant with the current laws and your help in getting us the documents necessary to do so is always appreciated.

Sincerely,

A handwritten signature in black ink that reads "David A. Lauer & Co." with a stylized flourish at the end.

David A Lauer & Co., Inc. CPAs
Attachments

2540 Nottingham Way
Trenton, New Jersey 08619

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Who must report payments on 1099 Forms?

- Any trade or business operating for gain or profit
- Non-profit organizations
- Trusts of qualified pension or profit-sharing plans
- Certain organizations exempt from taxes under section 501 (c) or (d)
- Farmers co-ops that are exempt from taxes under section 521
- Widely held fixed investment trusts

Note: Personal payments are not reportable.

File Federal Form 1099-MISC if

- 1) You paid at least \$10 in royalties, broker payments in lieu of dividends, or tax exempt interest, even if the recipient is a corporation
- 2) You paid at least \$600 (for federal reporting) or \$1000 (for NJ state reporting) in
 - a) rents (except rent paid to real estate agents)
 - b) services(including parts and materials) – includes payments to independent contractors
 - c) attorneys fees, even if the attorney is a corporation
 - d) gross proceeds to an attorney, even if the attorney is a corporation
 - e) prizes and awards
 - f) other income payments including punitive damages and deceased employee's wages
 - g) medical and health care payments, even if the recipient is a corporation
 - h) cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish, even if they are a corporation
 - i) cash paid from a notional principal contract to an individual, partnership, or estate
- 3) any fishing boat proceeds
- 4) direct sales of at least \$5000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment
- 5) director's fees and other remuneration, including payments made after retirement
- 6) you withheld any federal income tax under the backup withholding rules regardless of the amount of the payment.

Payments not required to be reported on 1099-MISC

- 1) payments to a corporation except those noted above
- 2) reimbursements to employees for business expenses
- 3) payments for merchandise, telegrams, telephone, freight, storage, and similar items
- 4) payments of rent to real estate agents
- 5) wages paid to employees – (use form W2 for that)
- 6) military differential wage payments made to employees while on active duty (use form W2 for that)
- 7) business travel allowances paid to employees (may be reportable on W2)
- 8) cost of current life insurance protection (report on W2 or 1099R)
- 9) payments to a tax exempt organization(HSAs, IRAs, Archer MSAs, Coverdell ESAs)
- 10) scholarships or fellowship grants

File Federal Form 1099-INT if

- 1) You paid interest in the amount of at least \$600 during the calendar year, except if paid to a corporation or interest on an obligation issued by an individual

Note: This document presents the most common reporting situations and should not be considered to be a complete set of 1099 instructions. For complete instructions, refer to the IRS *General Instructions for Information Returns* and *Instructions for Form 1099-MISC* documents which can be found at www.irs.gov.

Request for Taxpayer Identification Number and Certification

**Give Form to the
requester. Do not
send to the IRS.**

Print or type See Specific Instructions on page 2.	Name (as shown on your income tax return)	
	Business name/disregarded entity name, if different from above	
	Check appropriate box for federal tax classification: <input type="checkbox"/> Individual/sole proprietor <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ <input type="checkbox"/> Other (see instructions) ▶ _____	
	Address (number, street, and apt. or suite no.)	Requester's name and address (optional)
	City, state, and ZIP code	
List account number(s) here (optional)		

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number									

Employer identification number									

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 4.

Sign Here	Signature of U.S. person ▶	Date ▶
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General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

Note. If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax on any foreign partners' share of income from such business. Further, in certain cases where a Form W-9 has not been received, a partnership is required to presume that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.