THE TAX FILE

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New 1099 Form

IRS has announced that a new Form 1099-NEC for business payments of non-employee compensation (for example, payments to independent contractors) will be used, starting in tax year 2020.

This form will be required for payments of $600 or more to a single payee during the calendar year. This new form will be used instead of Form 1099-MISC. Through tax year 2019, nonemployee compensation was reported on Form 1099-MISC.

Generally, Form 1099-NEC will be due to IRS and to payees by January 31. Because in 2021 the due date falls on

Sunday, 2020 forms will be due no later than February 1, 2021.

There is no automatic extension allowed for this form. However, an extension of time to file may be available under certain hardship conditions.

Payments of $600 or more to attorneys (including law firms) for business legal services will now be reported on Form 1099-NEC.

Form 1099-MISC will still be used for payments of rents, royalties, prizes and awards, medical and health care payments, direct sales, and other types of income.

Nonemployee compensation may be subject to "backup withholding" if a payee has not provided a taxpayer identification number to the payer, or if the IRS notifies the payer that the identification number on 1099 forms submitted to IRS is incorrect.

Backup withholding can apply to most kinds of payments reported on Forms 1099. If a payee is subject to backup withholding, the payer is required to withhold a certain percentage of tax and remit this tax directly to IRS.

Forms 1099-MISC due dates will also change as a result of splitting non-employee compensation to new Form 1099-NEC. For tax year 2020, Forms 1099-MISC that are filed on paper are due to IRS by March 1, 2021. Forms 1099-MISC that are filed electronically are due to IRS by March 31, 2021.

For more information about these changes, or about filing requirements for Forms 1099, please contact our offices.

Recovery Rebates

The Coronavirus Aid, Relief and Economic Security (CARES) Act includes a recovery rebate credit of $1,200 for individuals, $2,400 for couples, and $500 per child under age 17.

This advanced payment is actually a credit against 2020 income tax. The credit is phased out as adjusted gross income goes up.

This phase out, or reduction in the credit amount, is calculated at a rate of 5% of a taxpayer's adjusted gross income exceeding $150,000 for joint filers, $112,500 for head of household, and $75,000 for single filers.

The advance payment of this credit is determined based on 2018 or 2019 income (as shown on a taxpayer's tax returns as filed). The actual credit will be determined based on the taxpayer's 2020 income, as reported on 2020 tax returns.

Under the CARES Act, taxpayers who received advanced payments of recovery rebates will NOT be required to repay any of the advanced payments they have received. This is true even if their adjusted gross income exceeds the income limits for the refund credit, as calculated on their 2020 income tax returns.

Some taxpayers did not receive the full amount of the credit, based on 2018 or 2019 income. These taxpayers will be able to claim the difference between the calculated amount of the recovery rebate and the amount they already received when they file their 2020 tax returns.

Many taxpayers will have lower income in 2020 due to the COVID-19 pandemic. As a result, they may qualify for the credit on their 2020 tax returns, even though they did not qualify to receive an advanced payment during this year.

If children were born or adopted in 2020 (and possibly in 2019 if the advance payment was based on 2018 taxes), taxpayers with qualifying income levels will be eligible for an additional $500 for each child.

Taxpayers with 2020 income at or over the phase-out thresholds may be able to increase the amount of their 2020 tax credit with some creative tax planning. Contact us to discuss your situation, and how your recovery rebate might be increased.

Interest on Refunds

The IRS issued a statement in late June on interest payments. Interest on 2019 individual tax refunds reflected on tax returns filed by the due date of July 15, 2020 will generally be paid from April 15, 2020 until the date of the refund.

Normally the IRS only pays interest on refunds that remain unprocessed 45 days or more after the tax-filing deadline, normally April 15. This year the filing deadline was moved to July 15 due the coronavirus pandemic.

Taxpayers who filed before April 15 may receive interest if their refund was issued after April 15. Taxpayers who filed by the July 15 due date and are due refunds will be paid interest from April 15 until the date their refunds are issued.

Taxpayers who filed paper tax returns are likely going to receive an interest payment. The IRS is experiencing significant processing delays for paper returns due to the recent coronavirus shutdowns at processing facilities.

Interest payments may be sent separately from refund checks. By law, the interest rate on overpayments is adjusted quarterly. The interest rate for the quarter ended on June 30, 2020 was 5% per year, compounded daily. The interest rate for the quarter ending on September 30, 2020 is 3% per year, compounded daily. Both rates are significantly higher than most taxpayers can get through banks currently.

Of course, interest paid by IRS is taxable income to taxpayers in the year received.

Tax Tidbits

Millionaires, or at least taxpayers with income of at least $1 million, have less than a 1% chance of being audited by the IRS. Through June 2020, the agency has audited 0.05% of those earning $1 million to $5 million, according to information released recently. Taxpayers reporting income of $10 million or more are audited at a rate of 0.03%.

Overall, IRS audited about 0.15% of individual income tax returns from tax year 2018. Taxpayers claiming the Earned Income Credit were audited at the highest rate of 0.6%.

IRS started about 71% fewer corporate audits this spring, compared to the same period one year ago. The number of partnership tax audits decreased by 79%, and individual tax audits decreased by 65%.

IRS audit rates have been decreasing for several years due to budget cuts and staff reductions. Audit rates could decline even further due to the COVID-19 pandemic's impact on IRS operations.

IRS is dealing with fallout from sending tax notices in error. Notices were sent to taxpayers who have a balance due on their taxes, but who mailed payments to IRS. Due to the backlog of unopened mail, the payments have not been processed, and notices requesting payment, plus penalty and interest, were generated by IRS computers and sent to taxpayers. They are working to stop these notices from being sent.

For More Info

The articles in this newsletter are intended to present general tax information. Accounting rules and tax laws are complex. Not all ideas presented may be appropriate for your specific circumstances.

For additional information, call Kagan & Associates, Ltd. at 847-392-3300 or e-mail us at Info@KaganLtd.com.