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Helpful Information for Our Clients

1099 Filing Requirements

Your business (including sole proprietorships) is required to file Form 1099-NEC for each individual or business to whom you have paid $600 or more in the course of operating your trade or business for the following nonemployee compensation payments:

- Services of an independent contractor (including parts and materials)
- Directors' fees
- Payments made to attorneys, including a law firm or other provider of legal services
- Fish purchases, for those in the trade or businesses of purchasing fish (and other aquatic life) for resale

Your business is required to issue Form 1099-MISC if you paid any of the following:

- At least $600 in Rents (Box 1 of Form 1099-MISC)
- Other payments that do not fit anywhere else on Form 1099-NEC or 1099-MISC (Box 3 of Form 1099-MISC)
- At least $10 in royalties

However, you are not required to file Forms 1099-MISC if any of the following apply:

- You are not engaged in a trade or business
- You are engaged in a trade or business and the payment was made to another business that is incorporated, but was not for medical or legal services
- All payments made to the person or unincorporated business total less than $600 in one calendar year

The following deadlines apply for filing Forms 1099-NEC and 1099-MISC. If you are not able to file the forms with the IRS by the deadline, a 30-day extension is available only for emergencies by filing Form 8809. If Forms 1099 are not filed or extended by the deadlines below, the IRS will assess substantial penalties that range from $50-$550 per form.

1099 Filing Deadlines for the 2021 Tax Year	
Form 1099-NEC	January 31, 2022
Form 1099-MISC (paper filed)	February 28, 2022
Form 1099-MISC (filed electronically)	March 31, 2022

In order to file your Forms 1099-NEC and 1099-MISC accurately, you will need the following information:

- Name of individual or business
- Their federal tax classification: Individual/sole proprietor/single-member LLC, C-Corporation, S-Corporation, Partnership, Trust/Estate, etc.
- Address
- Social Security Number or Employer Identification Number

The best way to acquire this information is to have the recipient fill out a Form W-9, Request for Taxpayer Identification Number and Certification, which can be downloaded online at

https://www.irs.gov/pub/irs-pdf/fw9.pdf?portlet=103. We recommend obtaining a completed Form W-9 at the time the services are performed.

Business Meals

Taxpayers are still generally able to deduct 50% of the food and beverage expenses associated with operating their trade or business. The IRS provided guidance that taxpayers may deduct 50% of an otherwise allowable business meal expense if:

1. The expense is an ordinary and necessary expense paid or incurred during the tax year in carrying on a trade or business,
2. The expense is not lavish or extravagant under the circumstances,
3. The taxpayer, or an employee of the taxpayer, is present at the furnishing of the food or beverages,
4. The food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact; and
5. If food and beverages are provided during or at an entertainment activity, then the expenditure must be separately purchased from the entertainment, or the cost is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts. The food and beverage charge must not be inflated to circumvent the entertainment disallowance rule.

*Substantiation***:** Almost as important as qualifying for the deduction are the requirements for proving that it qualifies. The use of reasonable estimates is not sufficient to stand up to IRS challenge. You must be able to establish the amount spent, the time and place, the business purpose, and the business relationship of the individuals involved. Obviously, you must set up careful and detailed record-keeping procedures to keep track of each business meal and to justify its business connection.

We often see meal and/or drink purchases where only the taxpayer is present which generally are only deductible if the taxpayer is outside of their metropolitan area and if it is necessary for the taxpayer to stop for substantial sleep or rest to properly perform their duties while traveling away from home on business (think of this as generally meaning an overnight stay is needed). This type of meal expense is considered a “travel meal” and is 50% deductible.

If you are simply at a local job site and take a break to get a meal, <u>this is not deductible</u> or you are on your way to a local job site and stop to get a coffee, <u>this is not deductible</u>.

The major change from the 2017 Tax Cuts and Jobs Act (TCJA) to the meals deduction is for employer provided meals given to employees on company premises. Under the old law, these were 100% deductible but under the new law they are only 50% deductible.

Meals that have always been <u>and continue to be</u> 100% deductible include office holiday parties or picnics, and food offered to the public for free. Meals that are included as taxable compensation to an employee or contractor are 100% deductible to the employer.

Changes for 2021 and 2022:

The *Consolidated Appropriations Act of 2021* made changes to the rule regarding the deductibility of business meal expenses provided by restaurants in 2021 and 2022. The new legislation allows 100% deduction for meals provided by the restaurant, whether it be dine-in, take-out, or delivery. Keep in mind that the meals still need to meet the five requirements listed above to be deductible.

Entertainment Expenses

The *2017 Tax Cuts and Jobs Act (TCJA)* repealed the deduction for entertainment, amusement, or recreation activities; membership dues for any club organized for business, pleasure, recreation, or other social purposes; or a facility or portion thereof used in connection with any of the above items.

Included within the new regulations is the following definition of entertainment activities: "such as entertaining at night clubs, cocktail lounges, theaters, country clubs, golf and athletic clubs, sporting events, and on hunting, fishing, vacation and similar trips". For example, under the old tax rules taking a client to a baseball game would qualify as a 50% deductible entertainment expense. Under the new law this activity is nondeductible.

This means you can still incur entertainment expenses, but these expenses are completely nondeductible, regardless of whether they are directly related to or associated with the taxpayer's business.

As stated in the meals section above, if food and beverages are provided during an entertainment event and are purchased separately or stated separately on the receipt or invoice, the food and beverages are still deductible.

We highly recommend that you distinguish entertainment expense from your meals expense in your books and records.

Gifts

As a reminder to all clients, business gifts given to clients in the course of trade or business are subject to a $25 deduction limit per person per year. Any amount over $25 will be a nondeductible expense. Keep records proving the business purpose as well as the amount spent.

Auto Expenses: Keeping A Business Mileage Log

If you use your vehicle for business, substantiation is required to take these deductions. The IRS requires you to keep a contemporaneous mileage log documenting the following information:

- Dates of your business trips
- Mileage for each business trip
- Business purpose of the drive
- Locations of the places you drive

Not all mileage driven for business is deductible. Your daily commute from your home to your business does not qualify for a deduction.

Some examples of eligible mileage include getting from one workplace to another workplace, visiting clients or customers, and attending business meetings away from your regular workplace. Each trip must be documented as outlined above.

In order to calculate your total mileage for the year, we recommend recording your beginning and ending odometer readings each year. There are various ways that you can keep track of your mileage. You may simply use a notebook where you record the information listed above and use that as a log. You may use a mileage log spreadsheet (available upon request) that is more secure than a paper mileage log and does the manual calculations for you. Lastly, mileage-tracking apps have grown in popularity over the years and are a perfect way to track your mileage using your smart phone. Some phone apps that we have seen our clients use in the past are MileIQ and TripLog.

Note that without a business mileage log, we are not able to take the actual or standard mileage auto expenses on your tax return.

Travel

For tax purposes, the IRS defines travel expenses as ordinary and necessary expenses of traveling away from home for your business, profession, or job. Your home encompasses your entire city or general area in which your business is located. Deductible travel expenses may include the following:

- Travel by air, train, bus, or car between your home and business destination
- Taxi, commuter bus, and airport limousine fares between your airport, hotel, and work location
- Auto expenses incurred while traveling away from home on business (see Auto Expense section above)
- Lodging
- Non-entertainment related meals
- Tips, laundry services, baggage fees, or any other ordinary and necessary expenses related to your travel

In general, allowed deductions are those only for business purposes. If your trip is both business and personal, you must separate the business expenses from the personal expenses. This includes meals during travel. For meals, 50% of non-entertainment related business meals are deductible. Travel expenses for those traveling with you are only deductible if the person is an employee or business associate who has a bona fide business purpose to attend. Determining your eligible travel expenses requires some special considerations, depending on the purpose of the trip and the destination. If you incurred travel expenses and would like additional guidance on the deductibility of these expenses, please let us know.

If you have questions regarding any of these items or other tax and bookkeeping topics, please reach out. We would be happy to assist you.

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