

November 21, 2016

The purpose of this letter is to outline some of the important reporting requirements for both 1099s and W-2s that impact most businesses.

1099 Requirements for 2016

The IRS requires that you file information returns (1099's) for cash and check payments made by your trade or business to individuals not treated as your employees. Non-incorporated partnerships and LLCs are also subject to this requirement.

The payments include such things as:

	<u>Amount Requiring Reporting</u>
Contract Labor, Commissions, Directors Fees and Other services provided to your business	\$600 or more
Dividends, Interest and Royalties	\$10 or more
Professional Fees	\$600 or more
Rents (other than to real estate agents)	\$600 or more
Attorneys Fees for legal services	\$600 or more
Payments to attorneys for settlements	ALL

At this time, payments to corporations are exempt with the exception of legal services. There are other payments which may also require a 1099 to be issued, such as gambling winnings, fishing income, and others.

Beginning in 2012, there was an important change to 1099 reporting that must be considered in compiling your 1099 amounts. The 1099-K form will be issued for all merchant and third-party network payments. Basically, this new form will report all payments made to businesses via credit card processor. The merchant and third-party companies are responsible for preparing 1099-Ks; therefore, any items a business pays through a credit card should not be included in the amounts compiled for 1099-MISC forms.

Baldwin CPAs is a partnership for income tax purposes and thus all clients who pay our firm over \$600 are required to prepare a 1099 for our professional services. Our federal EIN is 20-1416603. Keep in mind per above information, if our invoices were paid via credit card, a 1099 is not required.

Baldwin CPAs would be happy to prepare or assist you in the preparation of your 1099s. To ensure accurate preparation, please forward the name, address, social security or federal identification number, amount and type of compensation (rent, dividends, commissions, etc), and phone number for all recipients. **The deadline for submission to the IRS of 1099 forms for 2016 has been changed to January 31, 2017. In prior years, it was February 28. Therefore, in order to comply with the new IRS deadline, please provide necessary information to our offices by January 15, 2017.**

Affordable Care Act Requirements for group health insurance

For 2016, employers who have 50 or more full time employees are required to submit Form 1095-C to their employees on or before January 31, 2017 along with a copy to the Internal Revenue Service by February 28, 2017. Be sure to check with your Third Party Administrator to see if they will be handling the additional filing requirements which are required by The Affordable Care Act. Please call us if you have any questions regarding this new reporting requirement or need assistance in the completion of Form 1095-C.

(Continued on reverse side)

Certain W-2 Requirements

You should also be aware of what must be included on your employees W-2's for 2016.

	Include in Gross Wages	Subject to FICA Tax
Wages	Yes	Yes
Christmas bonuses	Yes	Yes
Tips	Yes	Yes
Other compensation	Yes	Yes
Value of group life insurance policy in excess of \$50,000.00	Yes	Yes
Amounts paid to employees for business expenses under a non-accountable plan or payments in excess of allowed amounts	Yes	Yes
Moving expenses	In some cases	In some cases
Scholarships and fellowship grants	In some cases	In some cases
Sick pay	Yes	Yes
Fringe Benefits		
Automobiles furnished (personal portion)	Yes	Yes
Club dues	Yes	Yes
Tickets to sporting events	Yes	Yes
Flights on company planes	Yes	Yes
Flights on commercial planes	Yes	Yes
Discounts on property or services	Yes	Yes
Financial counseling plan benefits	Yes	Yes
Education assistance payments	In some cases	In some cases
Legal and educational services	Yes	Yes
Retirement plan contributions (employer's match)	No	No
Health insurance coverage for 2% owners S Corporations	Yes	No

On 2016 forms W-2, employers who filed at least 250 W-2s for 2015 must continue to report the aggregate (employer and employee paid) cost of employer-sponsored health insurance coverage on Form W-2 in box 12, using code DD. Employers filing less than 250 W-2 forms for 2015, have the option of including this information on their W-2 forms.

Recipient copies of 1099s and W-2s should be distributed on or before January 31, 2017. **Form 1099s and W-2s along with their respective transmittal forms must also be submitted to the Internal Revenue Service or Social Security Administration by January 31, 2017, which is the new deadline for 2016 forms.** If you have over 250 information returns, you must file all federal forms electronically. Kentucky requires electronic filing on all returns over 100 forms.

Penalties will apply for failure to file W-2 and 1099 forms by the due dates. Because of the earlier due date of January 31, 2017, for these forms, it is extremely important to provide the information to Baldwin CPAs as early as possible. Applicable penalties will be based on when the W-2 and 1099 forms are actually filed, with additional penalties assessed for intentional disregard of filing requirements. Also, improper filing of information returns can result in other substantial penalties.

The IRS has backup withholding regulations that require you to deduct and withhold income tax at a 28% rate if the payee fails to furnish an identification number to you.

These are the most common rules and requirements for W-2 and 1099 forms. The laws and regulations which apply to these forms are very complex, and there are many situations to which unique requirements apply. The staff at Baldwin CPAs will be happy to assist your business comply with the filing requirements.

Baldwin CPAs, PLLC

TO COMPLY WITH U.S. TREASURY REGULATIONS, WE ARE REQUIRED TO INFORM YOU THAT ANY TAX ADVICE CONTAINED IN THIS MESSAGE OR IN ANY ATTACHMENT IS NOT INTENDED TO BE RELIED UPON AND CANNOT BE RELIED UPON, TO AVOID PENALTIES UNDER THE INTERNAL REVENUE CODE