Not All Payments Require a Form 1099

Marc C. Lovell
Tax School, Department of Agricultural and Consumer Economics
University of Illinois
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Background

The Internal Revenue Service has found that taxpayers are more likely to report income if they know the IRS has knowledge of the income. Hence the required issuance of Forms 1099 for various types of income such as interest, dividends, rents and nonemployee compensation. It is interesting that there is one exception to the 1099 MISC reporting for the hauling of grain and livestock.

Form 1099-MISC is an information return that businesses, including farm businesses, must use to report payments made to individuals in the course of operating the farm business. Form 1099-MISC indicates the amount of the payment as well as the relevant details about the farmer that paid the funds and the recipient. Form 1099-MISC is prepared by the farmer and provided to the recipient of the payment. This information is also furnished to the Internal Revenue Service.

When Does the Farm Business Need to Prepare a Form 1099-MISC?

The farm business needs to complete a Form 1099-MISC for payments of $600 or more made to an individual who is a vendor, subcontractor, independent contractor or other person paid for services in the course of business.

What Types of Payments Require a Form 1099-MISC from the Farmer?

Examples of the types of payments for services that will require the farm business to issue Forms 1099-MISC to individuals for payments of $600 or more are:

- Rents, royalties, sharecropping payments,
- Interest payments,
- Nonemployment compensation and commission payments,
- Fee payments to attorneys, accountants or other professional service providers.

When is a Form 1099-MISC Not Needed?

Many types of payments made by the farmer do not require reporting on a Form 1099-MISC. Some of
these are:

- Most payments made to a corporation,
- Payments made in connection with the trucking or hauling of livestock, grain or other farm produce,
- Payments made to a government agency or tax-exempt organization,
- Payments for merchandise.

**Reporting Requirements**

Payments shown on Form 1099-MISC are generally not subject to FICA. If the party receiving payment does not provide the farmer with a valid social security number, the farmer is required to withhold 28% of the payment in the form of “backup withholding” for income tax. The income tax is subsequently reported and paid to the IRS using Form 945, Annual Return of Withheld Federal Income Tax.

If a contractor who is not a dealer in supplies performs a service and also provides the supplies required, the farmer must report the entire payment for supplies and services on the Form 1099 that is prepared for the contractor.

Forms 1099-MISC must be prepared and forwarded to each person to whom $600 or more was paid during 2011 by January 31, 2012. The Form 1099-MISC information must be forwarded to the IRS by February 28, 2012. Recently, penalties have increased for late Forms 1099-MISC or for necessary Forms 1099-MISC that were not issued. Therefore, it is essential for the farmer to ensure compliance with these Form 1099-MISC reporting rules.