

Don Farmer's Form 1099 and W-9 Updates



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- This deck is kept up-to-the-second
- There will be typos
 - Your presenter writes 100% of this deck
 - Images and slide designs are from the PowerPoint “designer” function
 - Your presenter uses many dashes – and was doing so long before AI
- No two sessions are ever the same
- Don't make final decisions based on anything you see or hear today
- Always talk to your "applicable party" -- accountant, CFO, office manager, tax manager etc etc etc



No Form W-9 Yet

- No new Form W-9 yet
- Draft first released one year ago (September 2025)
- Revisions to the draft released in May 2026
 - This draft said “June 2026” on it
 - Cleary, didn’t mean anything!



Draft W-9

- One new sentence added in the taxpayer identification number area
- “Do not enter the EIN of a disregarded entity”
- Disregarded entity =
 - LLC with one owner, and
 - No election to be taxed as a corporation



Draft W-9

The sentence is new – the actual guidance is not

- If the sole owner of a disregarded entity is a human, then you need the human's info on the W-9
- Their name and TIN
- TIN: EIN only if it's in their name personally!
- **This is not new**
- But W-9s of these types of LLCs are often wrong
- So, the IRS is trying to clarify



Draft W-9

- Why the IRS cares about disregarded entities and how they fill out W-9s:
- When you file a 1099, the IRS logs it into its computers using the first 4 letters of the last name or the business name
- Example:
 - Your contractor is That Guy, with SSN of 999-99-9999
 - The IRS logs 1099s as:
 - GUY*999999999



Draft W-9

IRS computers can handle EINs the EIN is in the individual's name

- Example: That Guy has an EIN in his name personally
- He can use this EIN on the W-9, and the IRS computers know what to do with it – it gets added to his record
- The IRS computers CANNOT handle associating a disregarded entity LLC's EIN with an individual account



Draft W-9

- Common scenario:
 - That Guy forms an LLC called IT Superhero, LLC
 - EIN is 12-3456789
- If the W-9 shows That Guy with his LLC's EIN
 - Logged as GUY*123456789
- If the EIN shows IT Superhero, LLC as the main name
 - Logged as ITSU123456789
- Either way, it's not associated with That Guy's individual account
- This confuses the IRS computers – the computers create a completely separate taxpayer record not actually associated with the real That Guy



Draft W-9

- Some people ask “why” the IRS computers can’t handle this
 - Unknown, but it’s clearly a technology limitation
 - Bottom line: they can’t make the connection
- This is why a W-9 of a disregarded entity LLC should not show the LLC’s EIN



Draft W-9

- The latest draft says “June 2026” on it
- Clearly, that didn’t mean anything
- Recommendation
 - <https://www.irs.gov/pub/irs-pdf/fw9.pdf>
 - The current version will always show at this link
 - Check it now and then



Draft W-9

- Related discussion: when the form changes for real, does your client need to re-solicit W-9s from everyone?
- No — once you have a W-9 on file from someone, it doesn't expire
 - No requirement to resolicit unless you have reason to believe the information has changed or is wrong
- For new solicitations — always use the official, current version

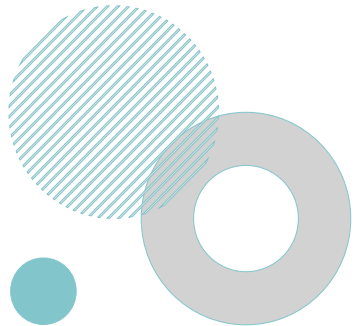


\$600 Threshold

\$600 Threshold

The \$600 threshold has changed

- This is widely known
- Caveat: not “everything” has changed



Dollar Thresholds

- It is now \$2,000 for:
 - Contract labor (1099-NEC)
 - Rent (box 1 of 1099-MISC)
 - Other income (box 3 of 1099-MISC)
 - Medical and healthcare payments (box 6 of 1099-MISC)
 - Crop insurance proceeds (box 9 of 1099-MISC)
 - 409A deferrals and nonqualified deferred comp (boxes 12 and 15 of 1099-MISC)



Dollar Thresholds

No change to:

- Royalties (box 2 of 1099-MISC): still \$10.
- Gross proceeds paid to an attorney (box 10 of 1099-MISC): still \$600.
- Fishing boat proceeds (box 5 of 1099-MISC): no dollar threshold plus other rules such as payments of up to \$100 per trip that are dependent on a minimum catch in exchange for additional duties.
- Substitute payments in lieu of dividends (box 8 of 1099-MISC): still \$10.
- Fish purchased for resale (box 11 of 1099-MISC): still \$600.



Dollar Thresholds

Reason:

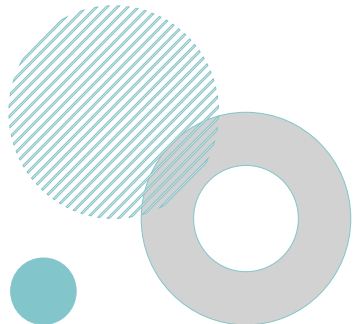
- OBBBA changed sections 6041 and 6041A
- Did not change other code sections that require 1099 reporting



Dollar Thresholds

Trivia:

- The \$600 threshold dates to either 1948 (old tax law) or 1954 (when section 6041 came about in the major tax reform of 1954)
 - Section 6041 didn't call for inflation indexing
- A true inflation adjustment from 1948 would be nearly \$8,400 today
- The \$2,000 amount is now indexed to inflation, so will go up in future years



Crossing the Threshold

Crossing the threshold:

- Use calendar-year and cash method
- **No matter what fiscal year or method of accounting the client uses**

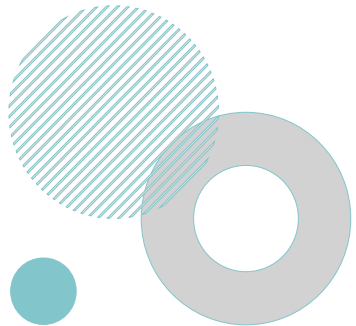


Refunds

Repayments

A common question: if a contractor (or other 1099 recipient) repays an amount in a future year, does this trigger any reporting obligations?

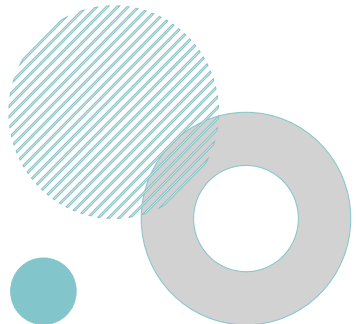
- Example: Your client pays a contractor \$5,000 in 2026.
- In 2027, they pay \$1,000 back to the client.
- Do they need to correct the 2026 1099 to show \$1,000?
- Or is there some sort of special reporting required by them in 2027?
- Short answer: **NO to both of these questions**



Repayments

The actions are:

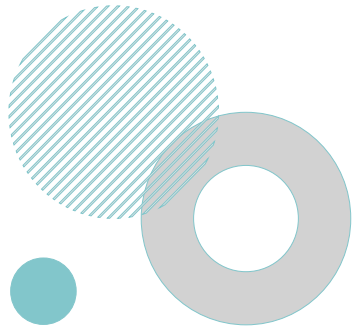
- If the payback happens in the same year, then you reduce the 1099 amount in that year.
 - Example, you pay your contractor \$5,000 in 2026 and they refund you \$1,000 in 2026. Your 1099 will show \$4,000.
- In the payback happens in a future year, no reporting is required.
 - For example, \$5,000 paid in 2026 and \$1,000 paid back to you in 2027 — you don't do anything. You don't correct the 2026 1099, nor do you report anything about this in 2027.



Repayment

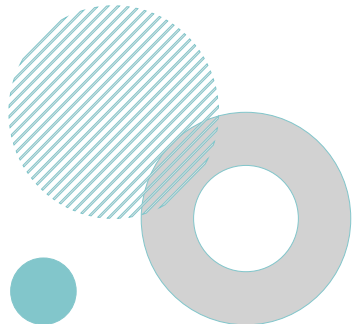
Court case in July drives this home — Smith v. Commissioner

- Mr. Smith had applied for disability benefits (SSDI), and was awarded benefits for a period of time in 2022.
- However, he continued to work while getting his SSDI
- In 2023 the Social Security Administration made him repay all the benefits he had received, which for 2022 had totaled over \$26,000.
- SSDI is partially taxable (regular Social Security benefits are, too) but Mr. Smith didn't report any of his 2022 SSDI on his 2022 tax return.
- His logic was, he had to pay it all back, so it wasn't really income.



Repayment

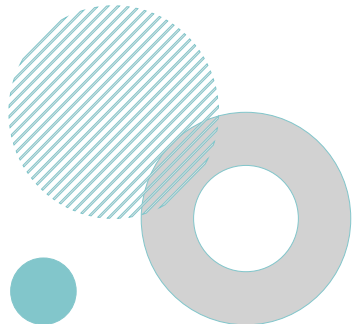
- The IRS didn't like this
- They said he should have reported the SSDI on his 2022 return, even if he later repaid it
- Case went to Tax Court



Repayment

The Tax Court sided with the IRS

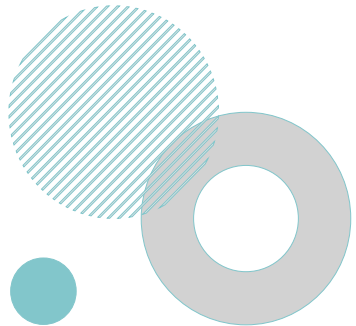
- Income reporting is based on tax years
- Mr. Smith did, in fact, receive SSDI in 2022
- Therefore, it is income to him in 2022
- Future repayments are irrelevant to his 2022 return



Repayment

Is Mr. Smith out of luck?

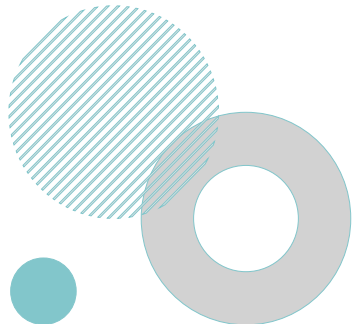
- Not necessarily
- Claim of right repayment
 - He might not qualify
- Applies in the year of repayment
- Doesn't change taxability in the year of receipt
- Not the problem of the issuer of the 1099, this is his problem to worry about



Repayment

What about you issuing a corrected 1099 in this situation?

- No.
- Corrections are for fixing true errors on a 1099.
- Example: your client pays \$5,000 to a contractor, but accidentally puts \$5,000 on the 1099-NEC.
 - This is an error, so it needs fixed.
- Simple repayment, as in the last few slides, does not require a correction



Tips and Overtime

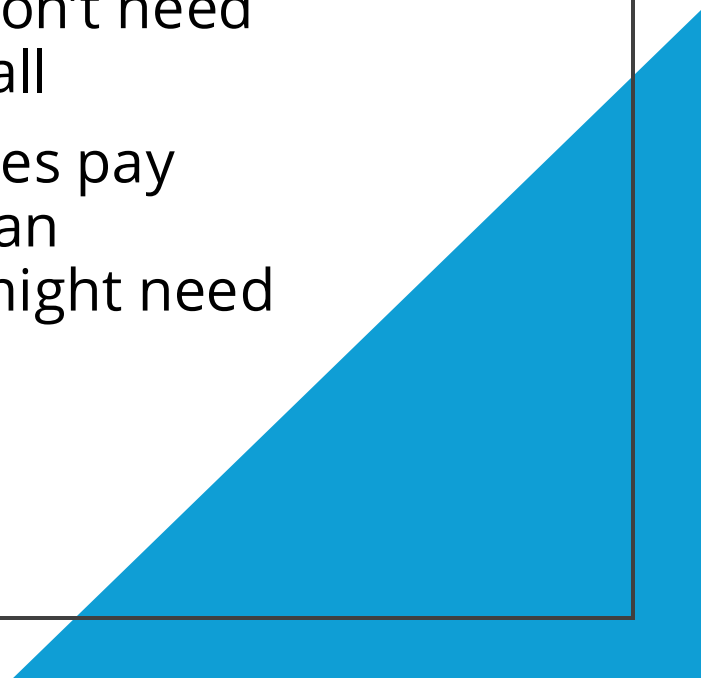
Tips, Overtime

- New versions of 1099-NEC and 1099-MISC for 2026
- New boxes for tips and overtime
- New deductions for individuals
- Employers must report
- “Employers” is key word



Tips, Overtime

Tips

- Before we say more:
 - If your organization never pays tips to anyone other than W-2 employees, then you don't need to worry about this at all
 - If your organization does pay tips to people other than employees, then you might need to deal with this
- 

Tips

If you:

- Pay voluntarily pay a tip to a non-employee,
- And the non-employee works in an industry where tipping is customary,
- You might need to separately report the tip.
- (Treasury Department has published a list of industries where tipping is customary)

Tips

Example:

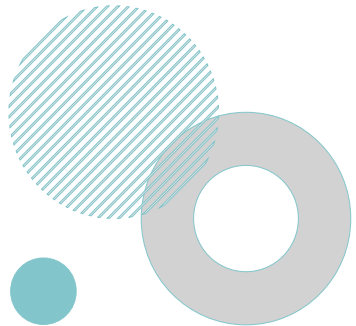
Photographer takes pictures at your company retreat.

Their invoice: \$2,000

Client pays a tip: \$500

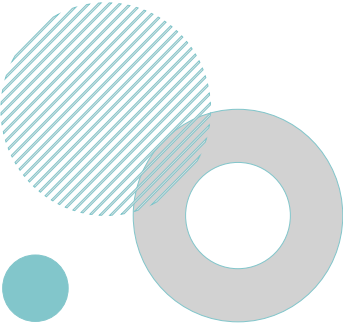
Total paid: \$2,500

Photographer is on the list of industries where tipping is customary



Tips

		OMB No. 1545-0116	Nonemployee Compensation
		Form 1099-NEC	
		(Rev. December 2026)	
		For calendar year <u>2026</u>	
1a Nonemployee compensation			Copy 1 For State Tax Department
\$ 2,500			
1b Cash tips	1c TTOC		
\$ 500	503		



Tips

- Reporting is only required if the client has a 1099 obligation to begin with
- Dollar thresholds, credit card exception, corporate exception, all apply



Overtime

- Overtime will be rarer for a 1099
- Only overtime paid under section 7 of the Fair Labor Standards Act needs to be reported
- FLSA only covers employees
- Why is there an overtime box on the 1099?



Overtime

DOL enforces FLSA, IRS enforces tax law (the deduction, 1099 reporting)

- DOL worker-classification: economic realities test
- IRS worker-classification: 3-factor test
- In most average situations, you'll reach the same conclusion under both tests
 - But, they are different tests, so you could reach a different conclusion
- Also: one big spot of difference (next slide)



Overtime

Section 530 workers

- A type of relief in an IRS audit of worker classification
- In brief: Section 530 relief prohibits the IRS from reclassifying an organization's contractors as employees, even if the workers probably are employees
- But only holds for tax purposes
- Might need to reclassify for other purposes
- This is where the possibility of 1099 reporting of FLSA overtime would apply



Worker Classification Case

Worker Classification

- Can a worker choose to be a contractor?
- NO
- Nor can your client say “this worker a contractor” just because they want the worker to be a contractor
- They’re a contractor — or an employee — based on the facts and circumstances
- *Francisco J. Gil v. United States*, September 2025



Worker Classification

- Gil was an investment advisor with Wells Fargo
- W-2 employee
- He wanted to be a contractor so he could deduct expenses
 - (As you know, employees cannot deduct expenses anymore, under current tax law)
- He made several requests with Wells Fargo to change his status to contractor
- They denied his requests



Worker Classification

- Gil decided to go ahead and file as self-employed and take deductions anyway
- The IRS did not like this
- Case went to Tax Court



Worker Classification

- Tax Court: IRS is right
- Gil was a W-2 employee
- A worker can't just "decide" to be a contractor
- Instructive for all of us: the case walks through the tax-law tests for determining worker classification
 - They determined that on almost all factors, he was an employee



Worker Classification

Tax law: three broad categories for determining worker classification:

- Behavioral control
- Financial control
- Nature of the relationship



E-Filing Issues

FIRE System

The IRS has two systems for intake of e-filed 1099s and 1042-S

- FIRE – Filing Information Returns Electronically
 - Existed since 1986!
- IRIS – Information Return Intake System
 - Rolled out in 2023
- FIRE is ending – 3 pm on November 19
- After that, IRIS will be the only option
- If you've ever e-filed a 1099, you have used these systems, whether you know it or not



E-Filing

Before we talk more about that, let's talk about the e-file mandate for information returns
If the total number of information forms you're filing is 10 or more, you must e-file ALL of those forms

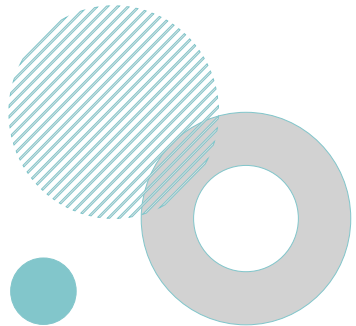
- And yes, you add together W-2s and 1099s
- Example: you're filing 7 W-2s and 3 1099s
 - Total is 10
 - You must e-file all of these forms



E-Filing

This count is based on EIN

- Related businesses do NOT combine
- Each EIN has its own count
- For us:
 - The count is based on your client's EIN, not yours, even if you are helping them file



Paper Filing

If paper filing

- Paper filing is allowed if you are filing less than 10 forms
- Form 1096 required
 - No 1096 if e-filing



E-Filing

E-filing options:

1. You (the accountant) file it for your client
2. The client does it themselves
 - Either way, within these two options, there are these options:
 1. Partner with a third-party platform.
 2. Software (similar concept to a third-party platform).
 3. You or your client has a login to IRIS and does it directly in IRIS



E-Filing

Pricing:

- Having your own login to IRIS: FREE
 - The IRS doesn't charge anything to use IRIS.
 - However, there is file formatting involved – may be software costs.
- Partnering with a vendor:
 - The vendor charges a fee.
 - But they maintain the connection to IRIS and take care of the technicalities.



E-Filing

In IRIS:

- You can have a login, and file on behalf of your client.
- Your client can have their own login, and file themselves.

Two options in IRIS:

- Taxpayer portal.
- Application to Application (A2A).



IRIS

Taxpayer Portal:

- Accepts CSV files
- IRS even gives a template
- CSV can only contain up to 250 entries at a time
- If you have 1,000 forms to file, must break into 4 CSV files



IRIS

A2A

- No limit on how much you can upload in one batch.
- Requires XML files.
- Must send test submissions into A2A.
- Still free, but more heavy lifting required.



IRIS

If you or your client wants to use IRIS directly:

- START NOW
- Must have a transmitter control code (TCC)
- Takes up to 45 days to receive

If partnering with a vendor:

- START NOW
- Many vendors have onboarding
- Plus various unknown hurdles you might encounter

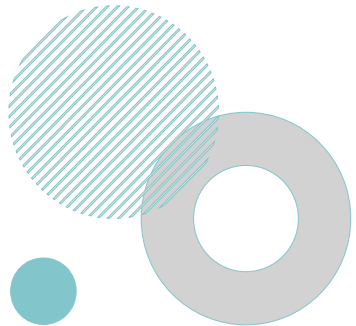


E-Delivery

E-Delivery

In March:

- Proposed regulations to ease the e-delivery rules for issuers of 1099-DA
- Treasury announced they were studying a relaxation of e-delivery rules for 1099-B
- Treasury sought public comment on easing e-delivery rules in general for all forms



E-Delivery

E-Delivery rules surprise many people

- We all know PDFs of 1099s are flying around
- Few seem to get caught
- But the rules do exist — regulation 31.6051-1
- Default delivery method is paper
- E-delivery allowed only with “consent”



E- Delivery

Consent. The recipient must consent in the affirmative and not have withdrawn the consent before the statement is furnished. The consent by the recipient must be made electronically in a way that shows that she or he can access the statement in the electronic format in which it will be furnished.

You must notify the recipient of any hardware or software changes prior to furnishing the statement. A new consent to receive the statement electronically is required after the new hardware or software is put into service.

E-Delivery

Prior to furnishing the statements electronically, you must provide the recipient a statement with the following statements prominently displayed.

- If the recipient does not consent to receive the statement electronically, a paper copy will be provided.
- The scope and duration of the consent. For example, whether the consent applies to every year the statement is furnished or only for the statement for a particular year, as applicable, immediately following the date of the consent.
- How to obtain a paper copy after giving consent.
- How to withdraw the consent. The consent may be withdrawn at any time by furnishing the withdrawal in writing (electronically or on paper) to the person whose name appears on the statement. Also, confirmation of the withdrawal will be in writing (electronically or on paper).
- Notice of termination. The notice must state under what conditions the statements will no longer be furnished to the recipient.
- Procedures to update the recipient's information.
- A description of the hardware and software required to access, print, and retain a statement, and a date the statement will no longer be available on the website.



E-Delivery

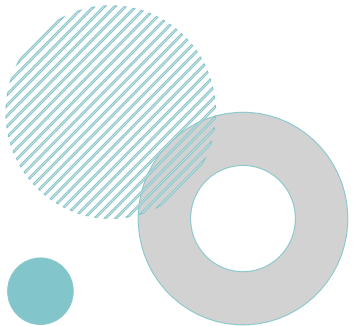
Format, posting, and notification. Additionally, you must do the following.

- Ensure the electronic format contains all the required information and complies with the applicable revenue procedure for substitute statements to recipients in Pub. 1179.
- Post, on or before the due date, the applicable statement on a website accessible to the recipient through October 15 of that year.
- Inform the recipient, electronically or by mail, of the posting and how to access and print the statement.

— “ ”

E-Delivery

- Does this include e-mailing a PDF?
 - YES
 - The regulations — written long ago — have paper as the default delivery method
 - A method other than paper is only allowed if you jump through the hoops
 - This is outdated in 2026, but the regs still exist
 - This is why the IRS seeks public comment on changing the rules



Lawsuit Settlements

Lawsuit Settlements

Two cases in 2026 involving lawsuit settlements

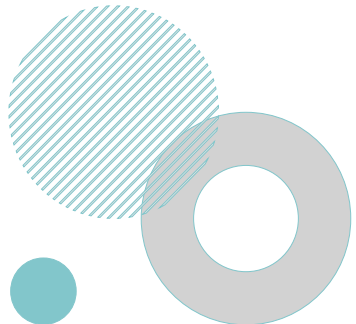
- Not 1099 cases, but provide insight for us
- Eiler v. Commissioner: are attorney fees taxable?
- Roman v. Commissioner: what are medical damages?



Eiler

Eiler case

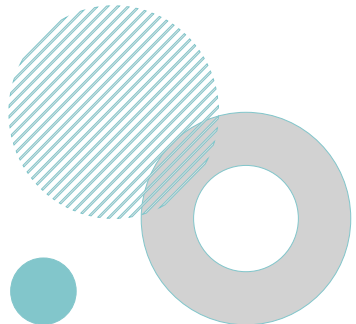
- A married couple with the last name of Eiler had legal disputes with credit reporting agencies such as Equifax
- Eventually reached settlements with these agencies
- Total settlement: \$64,750
- Actual divvying of the proceeds:
 - The attorneys for the Eilers: \$60,050
 - The Eilers: \$4,700
 - Percentage breakdown: attorneys 92.7%, Eilers 7.3%



Eiler

The various credit agencies that paid the settlement issued Forms 1099-MISC to the Eilers

- Total of those 1099-MISC forms: \$64,750
- When they filed their tax return, the Eilers only reported the amount they actually walked away with
- The IRS had a problem with this
- Dispute went to the Tax Court



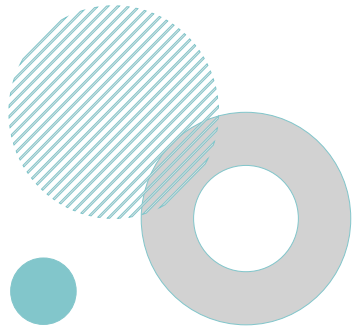
Eiler

- IRS: you owe tax on \$64,750
- Eilers: no, we don't; we didn't actually get \$64,750
- Tax Court: IRS is right.
- The transaction between the Eilers and their attorneys was a personal transaction.
 - A debt arose from that transaction.
 - The settlement belonged to the Eilers.
 - Taxation of the full amount belongs to the Eilers.
 - Amounts their attorneys received represent payment of a debt they owed to the attorneys.



Eiler

- Perhaps not a fair outcome to the Eilers, but not a surprising outcome
- Our takeaway: if a settlement is taxable to the recipient, you issue a 1099-MISC (box 3) for the full settlement amount, regardless of how much the attorneys end up getting.



Eiler

When are settlements taxable?

- ALWAYS, unless the law excludes them.
- The law excludes:
 - Medical damages.
 - Return of capital.
- "Medical damages" leads into the next court case



Roman

Roman v. Commissioner

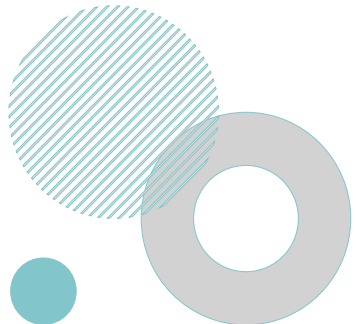
- The Romans had been married, then got divorced
- Mr. Roman had health problems
- Mrs. Roman moved in with him as his caregiver
- They got into various disputes with the owner of the apartment complex they lived in



Roman

While various legal proceedings between the apartment owner — a company called “Jefferson Hollywood” — and the Romans were taking place, Jefferson decided to sell

- The potential buyer demanded that Jefferson get the Romans out of the apartment before the sale was completed
- Or else, the buyer was going to reduce their offer by \$1 million
- Jefferson offered the Romans \$700,000 to get out
- The Romans accepted
- 1099-MISC to Mrs. Roman (who received 100% of the money)



Roman

Mrs. Roman didn't report any of this as income

- The IRS, as they often do, had a problem with this
- As the IRS started poking around, they said "hey, there's something else here!"
- IRS: settlement should have been split 50/50 between Mr. and Mrs. Roman
 - (Remember, they weren't married at the time of the settlement)
- The Romans: this was a settlement for medical damages — not taxable.



Roman

- Tax Court: The IRS is right on both counts.
- Tax Court: The settlement was not for medical damages.
- Mr. Roman was disabled, but the settlement had nothing to do with that.
- Courts will usually go with whatever the settlement agreement says, as far as what the settlement is for.
- This settlement agreement didn't specifically say anything about the settlement being for medical damages.
- So, the Court said they had to look at the intent of the settlement
- Court: the settlement was for getting the Romans out of the apartment, not because of any medical problem.



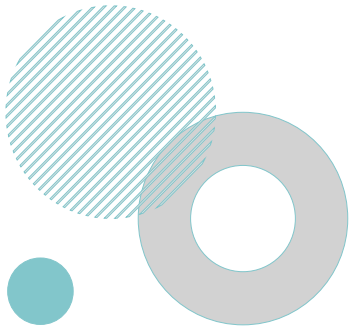
Roman

- Also, the Tax Court ruled that the settlement was taxable 50/50 by the Romans.
- The settlement wouldn't have happened if BOTH didn't "get out."
- Doesn't matter who got the 1099.



Roman

- Look at the settlement agreement.
- Does it specify that the settlement is related to medical damages?
- If not, your assumption should be the settlement is taxable.
- Taxable = potentially reportable on 1099-MISC.
 - Dollar threshold applies.
 - Corporate exception applies.
- More difficult: breakdown of the settlement between parties.
 - Requires analysis; not always going to be easy to know.

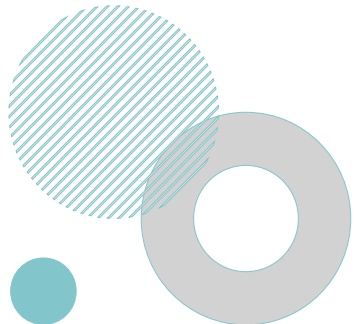


Legal Payments, In General

Legal Payments

Two types of legal payments:

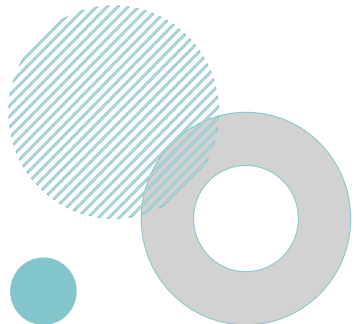
- Payments for legal services
 - Always 1099-NEC
 - \$2,000 threshold applies
 - But the corporate exception DOES NOT apply
- Gross proceeds paid to an attorney
 - Box 10 of 1099-MISC
 - Transfers to an attorney that are not for services rendered by the attorney
- In both cases, “attorney” means individual attorneys and law firms



Legal Payments

Gross proceeds paid to an attorney

- Lawsuit settlements.
- Your client is sued by an unhappy customer. Seeking to avoid the scandal of a court case, your client settles with the customer. The settlement money goes to the customer's attorney.
- This is a classic example of gross proceeds paid to an attorney.



Legal Payments

Garnishments are another example:

- Garnishments from paychecks are generally NOT reportable.
- Example: garnishment from an employee paycheck to a typical creditor = not 1099'able.
- This type of garnishment is reportable:
 - A garnishment from an employee paycheck, where the garnishment goes to a law firm. This is box 10 of 1099-MISC.
 - This is a transfer of money to a law firm that is not for services rendered by that firm.

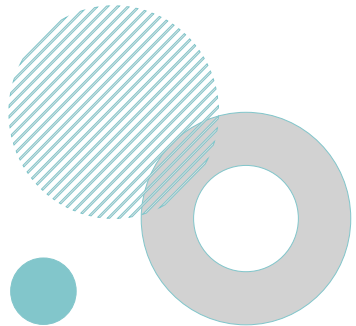


CP2100 Letters

CP2100 Letters

Fall is CP2100 letter season

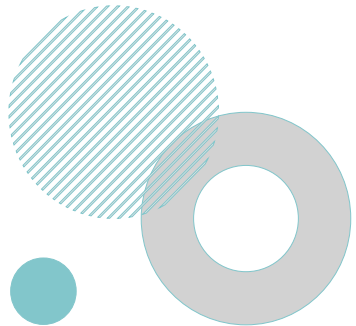
- Important to follow the process
- Publication 1281



CP2100 Letters

Background:

- When you file a 1099 with the IRS, the IRS logs it in its computers
- If the name and TIN combination on your 1099 doesn't match anything in the IRS computers, they send you a CP2100 letter



CP2100 Letters

Sometimes, your client doesn't need to do anything in response to a CP2100 letter

- If they can tell what the error is
- Example: they transposed a number or misspelled a last name
- FIX: just fix it internally in their system so it doesn't happen again
- **There is no requirement to submit a corrected 1099, nor do you need to send anything to the IRS**
 - In fact, there is documentation from the IRS, saying, essentially "don't contact us"



B Notices

- Must determine if it's a first or second B Notice
- Second B Notice = second time in a three-year period that you've gotten a CP2100 letter relating to the same payee
- Either type, you must:
 - Determine your "basis date" – the later of
 - The date printed on the letter, or
 - The date you receive the letter
 - Send the B Notice within 15 business days of your basis date
 - Get a response back within 30 business days of your basis date



B Notices

- First B Notice
 - Send a W-9
 - The W-9 you get back must be signed
 - **This must happen by mail!**
- Second B Notice
 - Do NOT send a W-9
 - The recipient of the B Notice must provide proof of their TIN
 - Social Security card
 - Letter 147C for EIN



B Notices

If no response to the B Notice:

- And your client pays the vendor again, THEN
- Must backup withhold on those future payments.



EIN Verification

Letter 147C

In July of 2026, the IRS updated online Business Tax Accounts to allow organizations to download an EIN verification letter

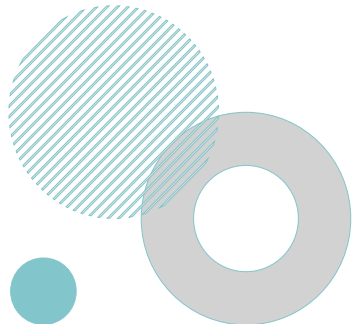
- The IRS says this can be used in place of a Letter 147C at banks
- What about B Notices?
 - Second B Notice requirement: Letter 147C for EIN verification



Letter 147C

We just covered this, but for review: in the CP2100 letter/B Notice process:

- A second B Notice requires you to receive back proof of the payee's TIN
 - For an EIN, this is a letter called a Letter 147C
- The B Notice procedures lay out specific guidelines for how the payee gets such a letter
 - Write or fax a request
 - Include a copy of the B Notice
 - Wait for the 147C to arrive by mail
 - Give you the 147C



Letter 147C

Cumulative Bulletin Notice 91-40 says, quote, “only Letter 147C will be acceptable”

- No other documentation can be accepted
- The verification people can download off the internet is NOT a 147C
 - It's something called a CP575
- In the absence of other guidance from the IRS:
 - Clients should not accept anything downloaded off the internet in second B Notice situations
 - Accept only a 147C gotten through the specified process



CP2100

This is only an issue if:

- You are sending a SECOND B Notice, and
- The issue is with the vendor's EIN



How'd we do?



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This presentation was prepared with the assistance of AI-enabled tools and has been reviewed and approved by the presenter. Questions, contact Richard Gordon, Business Solutions & Learning Director, at info@donfarmercpa.com.