

## IRS Reporting Requirements for Small Businesses – Tax Year 2025

The IRS requires small businesses to report payments made to vendors, subcontractors, and other parties using **Form 1099-NEC** or **Form 1099-MISC**. For 2025, the reporting threshold for both forms is **\$600**, and the payment must be made by **cash or check**.

**Do not report** payments made via **credit card, debit card, or third-party networks** (e.g., Venmo, PayPal) on either form. The payment processors report these on **Form 1099-K**.

### **Form 1099-NEC**

You must issue **Form 1099-NEC** if you paid **\$600 or more** for:

- Services (not products or inventory)
- Commissions
- Prizes or awards for services
- Director or professional fees
- Attorney fees paid **strictly for legal services rendered**

#### **Do not include:**

- Payments to personal service providers (e.g., babysitters, house cleaners)
- Payments to **C or S Corporations**, except for **attorney fees**

### **Form 1099-MISC**

You must issue **Form 1099-MISC** if you paid **\$600 or more** for:

- Rents
- Royalties
- Other income (non-self-employment)
- Gross proceeds paid to attorneys – typically when the attorney acts as an intermediary or escrow agent, such as receiving settlement funds or transaction proceeds that may be passed through to a client

### **Form W-9 Collection**

If you make payments reportable to the IRS, you are required to collect a **Form W-9** from each payee. You can download the form here: <https://www.irs.gov/pub/irs-pdf/fw9.pdf>

**Best practice:** Have vendors complete and return Form W-9 **before** beginning work.

#### **When reviewing the form:**

- Ensure the payee selects an **entity classification** in **Box 3a**
- If the payee is an **LLC**, they must also select a **tax classification**:
  - **C** for Corporation
  - **S** for S Corporation
  - **P** for Partnership or Trust/Estate, or
  - If the LLC has only **one owner and** is treated as a **disregarded entity**, they should **not** check the LLC box. Instead, they should check **“Individual/sole proprietor”**.

### **Backup Withholding**

You may be required to withhold taxes from payments made to 1099 recipients in certain cases, such as:

- Failure to provide a valid **Taxpayer Identification Number (TIN)**
- IRS notification that the payee provided an **incorrect TIN**
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### **Other 1099 Forms You May Need to Issue in 2025**

- **Form 1099-DIV** – For dividends paid by C Corporations
- **Form 1099-INT** – For interest paid to individuals or businesses (non-bank) for loans
- **Form 1098** – For mortgage interest received when you are the lender

### **Filing Deadlines**

- **January 31, 2026** – Most recipient copies must be sent

- **February 2, 2026** – Deadline to file **Form 1099-NEC** (paper or electronic)
- **March 2, 2026** – Deadline to file **Form 1099-MISC** (paper)
- **March 31, 2026** – Deadline to file **Form 1099-MISC** electronically

### **Electronic Filing Requirements**

For 2025, if you file **10 or more information returns**, you are required to file electronically.

This threshold includes **all information returns**, such as payroll tax forms.

**Penalties** for failing to file electronically can range from **\\$60 to \\$660 per return**, plus interest.

If you would like **KMAF** to prepare your 1099s for tax year 2025, please click the following link:  
<https://kmaf.cpa/20241099TEMPLATE>. This will allow you to download an Excel sheet to complete and return to our office for processing.

If you have any questions, please reach out:

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