

DIOCESE OF BUFFALO INTERNAL AUDIT NEWSLETTER

Form 1099-NEC, Nonemployee Compensation

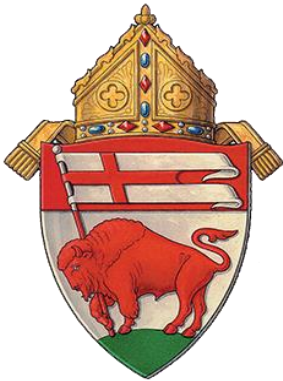
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Internal Audit Contact Information

Visit the Internal Audit webpage for more Newsletters and other useful items/tools:

[Internal Audit Website](#)

Please contact the DOB Audit team if you have any questions.
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WHAT IS FORM 1099-NEC?

Form 1099-NEC is the Internal Revenue Service (IRS) form used by businesses to report nonemployee compensation. Before 2020, all nonemployee compensation was reported on Form 1099-MISC. Payments made to independent contractors, freelancers, sole proprietors, and self-employed individuals must be reported using Form 1099-NEC.

WHO CAN FILE FORM 1099-NEC?

Form 1099-NEC, Nonemployee Compensation, must be filed for each applicable vendor in the course of your operations to whom the parish has paid **\$600 or more** in a calendar year for:

1. Services performed by someone who is not a parish employee; or
2. Payments to an attorney. The term "attorney" includes a law firm or other provider of legal services.

Nonemployee compensation of **\$600 or more** includes fees, rents, professional fees, maintenance, cleaning, snow removal, lawn care, repairs, commissions, and awards for services performed as a nonemployee, and other forms of compensation for services performed for your parish or school by an individual who is not an employee. Payments to independent contractors for related supplies must also be reported. Remember, \$600 includes payment for the service (labor cost), related supplies paid to perform the services, delivery fees, etc.

To report payments to independent contractors/service providers on Form 1099-NEC, parishes/schools must obtain the individual's taxpayer identification number (TIN). Independent contractors are required to promptly supply their taxpayer identification numbers (TIN). Parishes must use Form W-9 to obtain the individual's TIN, which can either be their SSN or EIN (employer identification number).

ENTER YOUR VENDOR INFORMATION IN PDS LEDGER

Vendor names in PDS Ledger must be entered to include the entire business name (e.g., "Company", "Inc." or "LLC". The "Tax Information" section of the PDS Ledger vendor set-up screen must be utilized to flag possible independent contractors. Reports generated from PDS Ledger documenting payments to independent contractors can then be easily generated to determine if Form 1099-NEC needs to be filed.

If Form W-9 indicates they are an LLC that is taxed as a sole proprietorship or a partnership, then a 1099-NEC is required. Completed W-9 forms must be separately filed in alphabetical order so they can be utilized each year. Always check the W-9 before you issue payments to any vendor who may be required to get a 1099-NEC.

Form 1099-NEC recipients receive this form instead of Form W-2 because the parish does not consider them an employee and does not withhold income tax or Social Security and Medicare tax. They are responsible for paying their own income tax and self-employment tax.

EXCEPTIONS TO FORM 1099-NEC

Payments for which a Form 1099-NEC is **not required** include:

- Payments to a corporation (including a limited liability company (LLC) which is a C or S corporation). Obtain a W-9 to determine if an LLC must receive a Form 1099-NEC.
- The exception from reporting payments made to corporations does not apply to payments for legal services. Thus, Form 1099-NEC is required when the parish/school has paid \$600 or more for legal services, including payments to an attorney, a law firm, and other legal service providers.
- Payments to a tax-exempt organization, such as another Parish or Regional School, tax-exempt trusts, federal, state, or local government.

LIMITED LIABILITY COMPANIES

A Limited Liability Company (LLC) can be taxed as a sole proprietorship (single-member LLC), partnership (multi-member LLC), C Corporation, or S Corporation.

Whether or not a parish/school has to file a Form 1099-NEC for their LLC vendors/contractors depends on how the LLCs file their taxes. Check the completed Form W-9 and determine if an LLC must receive a Form 1099-NEC. If no Form W-9 was obtained, ask the vendor to complete a Form W-9 immediately.

- LLCs that are taxed as a sole proprietorship or a partnership will need a Form 1099-NEC.
- LLCs that are taxed as C Corporations or S Corporations do not need a Form 1099-NEC.

Incorporated entities (i.e., C Corporations and S Corporations) do not require a Form 1099-NEC to be issued at year-end. If you see "Inc.", "Corporation", or "Incorporated" within a company's name, you won't need to issue a Form 1099-NEC. Although incorporated vendors do not require a 1099-NEC to be issued at the year end and therefore would not require a W-9, it is still within the parish's right to request a W-9 for these types of vendors.

CATERING COMPANIES

- If a parish/school is purchasing the food from a catering company and the vendor is not serving it, this is not a service. Therefore, a Form 1099-NEC would not apply.
- If the catering company is serving, a Form 1099-NEC would be required.

DEADLINE

Form 1099-NEC is due on January 31st for both recipient copies and the IRS, irrespective of the filing methods (paper or e-filing). The deadline to report Form 1099-NEC for the 2024 tax year is January 31, 2025.

New Electronic Filing Requirements

Starting tax year 2023, if you have 10 or more information returns, you must file them electronically with the IRS. To determine whether you must file information returns electronically, you must add together the number of information returns (Form 1099-NEC and Form W-2G) and the number of Forms W-2 you must file in a calendar year. If the total is at least 10 returns, you must file them all electronically. If you are required to e-file but fail to do so, and you do not have an approved waiver, you may be subject to a penalty for failure to file electronically unless you establish reasonable cause. The maximum penalty is \$330 per return.

ELECTRONICALLY FILE YOUR 1099S USING PDS LEDGER

Computer Services Department has a document called "Calendar Year End Procedure for 1099s" which can be found at <https://www.buffalodiocese.org/computer-services/> under the PDS Ledger section. Anyone interested in submitting 1099 forms through PDS Ledger should go through this entire Computer Services document and can use the following link for submitting the forms using Ledger.

Instructions from ACS Technologies for submitting 1099s through PDS Ledger are available at: <https://help.acst.com/en/pds/ledger-payroll/ledgerpayroll-user-guide/end-of-period/tax-e-file/electronically-file-your-1099s>

SUPPORTING INFORAMTION – DOB SPECIFIC GUIDANCE

Extra clergy (including non-assigned and retired priest) who are **NOT** on the parish payroll:

- The parish must issue a Form 1099-NEC to whom the parish had paid \$600 or more in a calendar year.
- Form 1099-NEC **DOES NOT** include Mass Offerings paid to the priest.

Required to be Reported on Form 1099-NEC	Not Required to be Reported on Form 1099-NEC
Extra Clergy Payment such as Supply Ministry	Mass Offerings
Ministry Allowance Payment (no longer applicable at DOB)	Mileage Reimbursements

As a reminder, always request and obtain the completed Form W-9 before the work/service is performed and before the payment is made. If you are unsure about having to file a Form 1099-NEC, it is better to file than not to, because there are no fines/penalties for unnecessary filings. If a contractor/vendor/payee you have paid refuses or fails to provide his taxpayer identification number (TIN), you will need to manually complete Form 1099-NEC on paper instead of digitally. In the TIN box, make sure you write the word "refused". Once it is complete, send copies of the form to both the payee and the IRS.