

## Year End Form 1099 Reporting and Taxable Fringe Benefits for 2021

The following information is presented to assist you and your trade or business entity in identifying, preparing, and filing required information with the IRS.

### Form 1099 Reporting

Certain types of payments of \$600 or more must be reported on a Form 1099. The chart below will help you to determine which form should be issued:

#### Form 1099-NEC

Services performed for your trade or business by someone who is not your employee (including parts and mat'l). Includes contractors, accountants, lawyers and consultants (Box 1)  
Directors fees (Box 1)

#### Form 1099-MISC

Rents paid to property owners (Box 1)  
Prizes and awards (Box 3)  
Other income payments (Box 3)  
Payments to an attorney for gross proceeds (Box 10)  
Nonqualified deferred compensation (Box 14)

### Exceptions

Payments for which a Form 1099 is **not** required include the following:

- Payments to a corporation (including an LLC that is treated as a C or S corporation), unless for attorney's fees.
- Payments for merchandise, telephone, freight, storage and other similar items.
- Rent payments made to *real estate agents* or *property managers*.

### Reporting

When a Form 1099 is required, it must show:

- The total amount paid for the calendar year;
- The name and address of the payee;
- The tax ID number (TIN) of the payee;
- Contact information for the payer; and
- The payer's TIN.

***You should request a federal Form W-9, Request for Taxpayer Identification Number and Certification, from persons to whom you make payments for services.*** If the business does not have a payee's TIN, you may be required to institute backup federal income tax withholding at a 24% rate on payments.

### State Reporting

Pennsylvania tax law requires the entity filing Form 1099-MISC and 1099-NEC to submit copies of federal forms 1099 to the Pennsylvania Department of Revenue for non-employee compensation for Pennsylvania-based work, Pennsylvania-source oil/gas lease payments or lessees of Pennsylvania real estate to non-residents. Nonresident withholding of 3.07% is required for non-employee compensation of \$5,000 or more to a non-PA resident individual, and for lease payments of \$5,000 or more to non-resident lessors for Pennsylvania real estate.

## **Due Dates**

*Generally, you must furnish the forms to recipients by January 31, 2022.*

### **Form 1099-NEC**

- Due to the IRS January 31, 2022      Paper or electronic

### **Form 1099-MISC**

- Due to the IRS February 28, 2022      Paper filing
- Due to the IRS March 31, 2022      Electronic filing

### **Form 1096**

- This form is used to summarize paper filed 1099 forms. A separate 1096 is required for each type of 1099 filed. For paper filing, this form is due to the IRS on the same due date as the respective Form 1099-NEC/1099-MISC.

## **Extension**

A 30-day extension is available by filing Form 8809. This does not extend the time to provide forms to recipients, which must be requested via a separate letter to the IRS including the reason for the delay as well as other information.

## **Employment Misclassification**

The IRS and certain states such as California, New York, and New Jersey are becoming more aggressive with those who misclassify workers as 1099 independent contractors instead of employees. If you are unsure about worker classification issues, please contact us or your payroll company for guidance.

## **Miscellaneous**

If a payer inadvertently fails to issue a proper Form 1099, the IRS can assess penalties.

If you are required to file 250 or more information returns, you must file electronically, unless a hardship waiver is obtained.

### *Who can help me file my 1099s?*

Form 1099s can be prepared internally by your organization, by your payroll company, by an online 1099 provider, or by us. Online 1099 providers can typically produce the forms and efile them on your behalf at a lower cost than having us prepare them. That being said, we are happy to prepare/continue preparing the 1099s for you if that is your preference. Please contact us.

Pennsylvania tax law requires the entity filing Form 1099-MISC to submit copies of federal forms 1099 to the Pennsylvania Department of Revenue. Filing is required from any payer who makes payments of income which 1) are from sources within Pennsylvania, 2) are payments of nonemployee compensation, 3) are paid to a resident or nonresident of Pennsylvania, who is an individual, a single member LLC, or a partnership, and 4) are required to be reported to the IRS on a Form 1099-MISC.

## Taxable Fringe Benefits (To be Reported on Employees' W-2s)

Under IRS regulations, certain fringe benefits that employees receive from their employers are considered taxable and must be reported as taxable wages on the employee's Form W-2. Taxable fringe benefits include:

- Company paid premiums of group life insurance policies in excess of \$50,000
- S Corporation owners' and family members' health and accident insurance premiums for those shareholders owning 2% or more of the outstanding stock of the corporation. These additional wages are not subject to Social Security, or Medicare (FICA), or Unemployment (FUTA) taxes if the payments of premiums are made to or on behalf of an employee under a plan or system that makes provision for all or a class of employees (or employees and their dependents). Therefore, the additional compensation is included in the shareholder-employee's Box 1 (Wages) of Form W-2, Wage and Tax Statement, but is not included in Boxes 3 and 5 of Form W-2.
- Personal use of company car (see below and attached worksheet for additional information documentation required)
- Travel allowances and certain spousal travel
- Country club dues
- Cash holiday bonuses and/or cash gifts

### REPORTING COMPANY AUTOMOBILE EXPENSES

We at GMS Surgent have been asked by our clients to provide specific guidance as to the proper reporting of company automobile expenses as taxable employee compensation. The determination of taxability is dependent upon whether the automobile was used by an employee for business (excludable) or personal (includable) use.

### EXCLUDABLE FROM COMPENSATION

Reimbursement of business use miles - The reimbursement of employee business mileage using the standard mileage rate (56 cents in 2021) is NOT includable as taxable compensation to employees who substantiate the business usage to their employer. Such substantiation must contain the date, mileage, destination, and business purpose of the trip.

NOTE: If reimbursement is for more than the standard mileage rate, the amount in excess of the standard mileage rate is includable as additional taxable compensation.

Example of Excess Mileage Rate Reimbursement:

Reimbursed	3,000	miles	@	\$0.60	\$1,800
Less: Allowed	3,000	miles	@	\$0.56	<u>-\$1,680</u>
Taxable Compensation					<u><u>\$120</u></u>

If the excess mileage rate is paid, it is reported as income subject to income taxes and payroll taxes on Form W-2. The nontaxable portion is reported in Box 12 with Code L.

NOTE: If an employer pays the employee auto allowance and does not require the employee to substantiate the use of the allowance and does not require the employee to repay the unsubstantiated balance, then the full amount of the auto allowance is includable as additional compensation and no amount is reported in Box 12 on the Form W-2.

### **INCLUDABLE IN COMPENSATION**

If an employee drives a company vehicle for personal use, including commuting back and forth to work, they must include the value of the personal use in their income. This can be done each pay period, monthly, annually, or whenever chosen. The compensation is subject to federal taxes, and the employer is required to withhold Social Security and Medicare. State tax treatment varies by state (for Pennsylvania, personal use of a company auto is not taxable).

The reporting and remittance of taxes on this compensation should occur within the same time frame as the company's normal requirements (monthly, semi-weekly, etc.).

*Ways to figure personal use of a vehicle:*

#### **Cents-Per-Mile Method:**

Under this rule, the employer determines the value of a vehicle it provides to an employee for personal use by multiplying the standard mileage rate by the total miles the employee drives the vehicle for personal purposes. Personal use is any use of the vehicle other than use in a trade or business. This amount must be included in the employee's wages or reimbursed by the employee. For 2021, the standard mileage rate is 56 cents per mile. The employer can use the cents-per-mile rule if either of the following requirements is met:

- The employer reasonably expects the vehicle to be regularly used in a trade or business throughout the calendar year (or for a shorter period during which it's owned or leased).
- The vehicle is actually driven at least 10,000 miles during the year and the vehicle is used during the year primarily by employees. (Consider the vehicle used primarily by employees if they use it consistently for commuting).

*Once the Cents-Per-Mile Method is adopted for a particular vehicle, it must continue to be used in all subsequent years that the vehicle qualifies for use of the rule.*

#### **Annual Lease Value Method (ALV):**

This method is the most widely used to determine the value of the personal use of company vehicles.

Generally, the annual lease value of an automobile is calculated as follows:

- Determine the fair market value (FMV) of the automobile on the first date it is available to any employee for personal use.
- Using the IRS Annual Lease Value Table 3.1, (1) look for the dollar range within which the FMV of the automobile falls. Then read across to column (2) to find the annual lease value.
- Multiply the annual lease value by the percentage of personal miles out of total miles driven by the employee.

The fair market value of the vehicle is determined when the vehicle is first made available to the principal driver. The fair market value is re-determined at the beginning of the fifth year, or if the

principal driver has changed. When determining mileage for the year, commuting miles are considered to be personal miles, not business miles.

The employee should maintain some written record of their mileage, which is provided to their employer at least annually for use in determining personal usage.

In order to determine annual personal use of a company automobile, cut-off should be made no earlier than two months before the end of the year. If a vehicle is sold or traded during the year, mileage information to-date should be provided at that time.

The ALV method of calculating personal use can get complex. If you would like GMS Surgent to assist in this calculation, please complete the attached Auto Input Form and contact us to discuss.

#### **About Us**

GMS Surgent is a mid-sized, full service, certified public accounting and advisory firm serving business and individual clients located primarily in (but not limited to) the Greater Philadelphia area. We warmly invite you to click around our website to learn a little more about our firm, our clients and the ways in which our services could benefit you.

"Personal Attention – Valuable Results", is the principal component of our mission statement. It highlights the GMS Surgent commitment to forging strong relationships and ensuring constructive communication while earning consistently effective results for our clients. It plays an essential role throughout every aspect of our firm, guides our actions and acts as a benchmark for the services we provide.

This information is of a general nature. It may omit many details and special rules and is current only as of its published date. Please contact us for more information and how it pertains to your specific tax or financial situation.

**AUTO INPUT FORM**

Employer Name: \_\_\_\_\_

Employee Name: \_\_\_\_\_

Current Year Information

	<u>Auto #1</u>	<u>Auto #2</u>
Description of auto:	_____	_____
Year:	_____	_____
Make:	_____	_____
Model:	_____	_____
Date made available for personal use:	_____	_____
Date sold/traded-in (if applicable):	_____	_____
Cost of auto:	_____	_____
Mileage ( 11/1/2020 thru 10/31/2021):	_____	_____
Business miles:	_____	_____
Commuting miles:	_____	_____
Other personal miles:	_____	_____
Total miles:	_____	_____
Odometer reading:	_____	_____
Is fuel paid by employer? (yes or no)	_____	_____
Was auto available for personal use during off-duty hours? (yes or no)	_____	_____
Did you have another auto available for personal use? (yes or no)	_____	_____
Are you an officer or 1% owner of the business ?(yes or no)	_____	_____
Does your employer withhold local tax? (If yes, indicate rate _____%)	_____	_____
Does your employer withhold PA state tax? (If no indicate which state _____)	_____	_____
Will you be over the Social Security limit for 2021 - \$142,800? (yes or no)	_____	_____

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**If you would like our assistance in completing this worksheet, please contact us at 610-975-9122.**