

IMPORTANT NOTICE

All taxpayers (both individual and businesses) are required to report certain business transactions to the Internal Revenue Service. This includes taxpayers that are self-employed, all businesses, nonprofit organizations, and taxpayers who have rental property.

Below is a list of the types of compensation which require informational reporting:

- Payments of \$600.00 or more*:
 - Non-employee Compensation (including subcontractors and temporary employees)
 - Rent
 - Prizes and Awards
 - Commissions
 - Consulting Fees
 - Professional Fees (including attorneys – not eligible for exception below)
- Royalties – payments of \$10 or more
- Interest payments of \$10 or more to a non-financial institution requires the issuance of 1099 Interest Forms
- Receipt of mortgage interest of \$600 or more requires the issuance of a 1098 Form

*The exception to this reporting is if any of the amounts paid above are to an entity incorporated under state law. Please note that Smith, Sullivan & Company, P.C. does not require a 1099 due to the fact that we are an incorporated entity.

For a complete list of payments see irs.gov (Form 1099-MISC & Payment Types to Report)

The following are the type of recipients that should be issued 1099 Forms:

1. Individuals
2. Sole Proprietors (self-employed individuals)
3. Partnerships
4. Realty Trusts
5. Attorneys (**regardless of entity type**)
6. Limited Liability Companies

If any of the above conditions are met, you are required to send the recipients/payer a form reporting the total amounts paid/received during the calendar year. These forms are due on or before January 31, 2012 for the 2011 calendar year. If you have a fiscal year that does not end in December, please be sure to calculate **actual amounts paid** during the **calendar** year January 1, 2011 – December 31, 2011.

Please be advised that the listing above is not inclusive. There are other types of transactions which are less common which require informational reporting. If you have any questions, please contact us.

The IRS now actively imposes more severe late filing and failure to file penalties on taxpayers who do not meet their reporting obligations as well as severe negligence fines for tax preparers who prepare tax returns which are not properly supported by 1099 forms (See Page Two). Therefore, we will be unable to prepare your tax returns unless your 1099 filing obligations are met.

If you need assistance with this reporting obligation, please do not hesitate to contact us. It would be our pleasure to assist you. The following is our fee structure for the preparation of informational returns for the 2011 year:

0 to 5 forms	\$ 100 (No charge to existing clients)
6 to 10 forms	\$ 100
Greater than 10 forms	\$ 100 plus \$15/per form >10

In order to ensure timely filing, we would need to receive your information on or before Friday, January 20, 2012. If the information is not received by that date, we cannot guarantee completion before January 31, 2012.

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New Increased Penalties for Failure to File Informational Returns:

The IRS now actively imposes more severe late filing and failure to file penalties on taxpayers who do not meet their reporting obligations. Section 2102 of the Small Business Jobs Act of 2010 increased penalties for failure to file information returns, failure to furnish correct payee statements, and for intentional disregard of the law.

Penalties may be assessed for failure to file correct information returns by the due date, without reasonable cause. This includes forms in the 1099 series. The penalty may also apply if you show incomplete or incorrect information, or file on paper when you were required to file electronically, or fail to file machine readable paper forms. For the purpose of this section, each 1099 is a return (this means that an employer having 5 subcontractors are filing 5 returns).

For returns required to be filed January 1, 2011, or later, the penalty for each information return filed is as follows:

- \$30 per return if you correctly file within 30 days of the January 31 due date; the maximum penalty is \$250,000 per year. For small businesses, the maximum penalty is \$75,000 per year.
- \$60 per return if you correctly file more than 30 days after the January 31 due date but by August 1; the maximum penalty is \$500,000 per year. For small businesses, the maximum is \$200,000 per year.
- \$100 per return if you correctly file after August 1; the maximum penalty is \$1,500,000 per year. For small businesses, the maximum penalty is \$500,000 per year.

The penalty for failure to furnish correct payee statements increases to \$100 per return. The maximum penalty under this provision is \$1,500,000 per year. For small businesses, the maximum penalty is \$500,000 per year. These penalties may be reduced as follows:

- For failures corrected within 30 days after the January 31 due date, the penalty is reduced to \$30 per return. The maximum penalty is \$250,000 per year. For small businesses, the maximum penalty is \$75,000 per year.
- For failures corrected on or before August 1 the penalty is reduced to \$60 per return. The maximum penalty is \$500,000 per year. For small businesses, the maximum is \$200,000 per year.

Small businesses for this purpose are those with gross receipts of not more than \$5,000,000.

The penalty for intentional disregard is \$250 per return for all filers. There is no maximum annual amount for this penalty.

The IRS is increasing audits in this area.

New Voluntary Classification Settlement Program:

The IRS launched in 2011 a new program that will enable many employers to resolve past worker classification issues and achieve certainty under tax law at a low cost by voluntarily reclassifying their workers.

The Voluntary Classification Settlement Program (VCSP) is a voluntary program that provides an opportunity for taxpayers to reclassify their workers as employees for employment tax purposes for future tax periods with partial relief from federal employment taxes.

If you are interested in this program, please contact our office.