



## What is Form 1099-NEC?

This tax season millions of independent workers will receive Form 1099-NEC in the mail for the first time. The 1099-NEC is the new form to report nonemployee compensation—that is, pay from independent contractor jobs (also sometimes referred to as self-employment income). Examples of this include freelance work or driving for Door Dash or Uber.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116	<b>2021</b> Form <b>1099-NEC</b> <b>Nonemployee Compensation</b>
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$	
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		3	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$	
Account number (see instructions)		5 State tax withheld \$	
		6 State/Payer's state no.	7 State income \$
			\$

Form **1099-NEC** (keep for your records) [www.irs.gov/Form1099NEC](http://www.irs.gov/Form1099NEC) Department of the Treasury - Internal Revenue Service

Previously, companies reported this income information on Form 1099-MISC (Box 7). If you're an independent contractor who has received that form in the past, you'll now

receive Form 1099-NEC instead. Other than the name of the form, not much else has changed for form recipients.

## Nonemployee compensation – what does that mean?

If you're totally new to nonemployee compensation—and given the recent boom in gig workers, there's a good chance you are—read on. There are important tax considerations to know about now, so don't wait until tax time. Gig worker taxes are something you want to wrap your head around well before you file.

Nonemployee compensation is paid to independent contractors who aren't employees. If that distinction doesn't ring a bell, be sure to review the difference between employee and independent contractor work statuses.

From a tax standpoint, here's the difference:

- **Employees:** Employers will take out various payroll taxes (such as federal and state taxes) from your paycheck. That withholding gives employees an automatic way to pay taxes as they go. At tax time, you receive a Form W-2 from your employer.
- **Independent contractors:** Your check won't have any payroll taxes withheld. That means paying as you go falls on *your* to-do list. At tax time, you'll receive Form(s) 1099-NEC to show the total amounts you were paid for the year.

So, how should independent contractors pay taxes on the nonemployee compensation shown on this 1099? To avoid an underpayment penalty, you should continue to pay taxes as you go vs. waiting until the tax time.

Instead of doing it on a by-paycheck basis, you'll do it with quarterly estimated payments. That means four times a year, you'll send a tax payment to the IRS as well as any applicable state and local revenue departments.

## Nonemployee compensation 1099-NEC

So, let's get back to your 1099-NEC and outline what it reports and what you do with it. Businesses will use this form for payments for services as part of their trade or

business. In addition to individuals, a business may file a 1099-NEC to a partnership, estate, or corporation.

The 1099-NEC only needs to be filed if the business has paid you \$600 or more for the year. If you made less than \$600, you'll still need to report your income on your taxes, unless you made under the minimum income to file taxes.

When you get your Form(s) 1099-NEC for your nonemployee compensation, you'll see that you've received Copy B. The business that paid you will send Copy A to the IRS.

On the form itself, you'll see your personal information and the amounts paid to you. There are also boxes for federal and state tax information, but they will most likely be empty unless you're subject to back-up withholding.

You'll use the amount in Box 1 on your Form(s) 1099-NEC to report your self-employment income. Instead of putting this information directly on Form 1040, you'll report it on Schedule C.

## What else should you know about filing taxes with nonemployee compensation?

Another step in the process is to calculate and pay self-employment taxes. As an independent contractor, your coverage of Social Security and Medicare taxes are paid through these taxes. To determine your self-employment taxes, you'll use Schedule SE. For the details, find out how self-employment tax works.

**Here's some good news:** As an independent contractor, you may be eligible to take the qualified business income deduction. This newer deduction lets you take a 20% deduction on pass through income (i.e., income from a sole proprietorship, partnership or S-Corp that is reported on your personal tax return).