



1099-NEC Income Treatment Scenarios

Form 1099 Scenario 1: Client receives 1099-NEC but does not understand what it is for:

Mia is a 24-year-old college student who did some part-time web development work over the summer. She loved the job because she could do it late in the evening which is the best time for her to get work done. Her boss did not care when or where she got the work done as long as it was done by a certain date.

She received a 1099-NEC for the \$10,000 she earned and does not know what it is or what to do with it.

How should Mia report her income?

Since Mia was able to do the work whenever she wanted and wherever she wanted, this is income that she received as an independent contractor, and therefore it should be reported on Schedule C subject to self-employment taxes. She can offset it with any expenses she incurred while doing the work. It would be reasonable to expect that she had business expenses; however, Mia did not keep any records of her expenses related to this activity.

How do you help Mia reconstruct her records?

Ask Mia if she incurred any travel expense or drove her car to attend meetings to discuss details related to this work. If she says no, then probe on how she worked with the team/group?

Did Mia purchase any software for this web development? Print supplies? Computer equipment?

Did she use personal equipment primarily for this work? She can claim depreciation, but she would need to determine what percentage was used for business and what was used for personal purposes.

Consider business use of the home: Mia may not qualify because no part of the home was used exclusively for business, and she could have performed the services at the business location. If Mia does qualify for the home office deduction, she can use the simplified option to deduct home office expenses. She can deduct \$5 per square foot of her home office, up to 300 square feet, for a maximum deduction of \$1,500.

Probe to determine if she did similar work for other people or organizations? Does her total income lead you to believe that it was enough to support her?

Explain to Mia that it is her responsibility to maintain good records of her income and expenses.