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To Our 1099 Clients:

**Remember to issue 1099 forms for 2011!** All businesses, including individuals who own rental real estate, are subject to the 1099 rules. The Internal Revenue Service is continuing its enforcement and assessments in this area. The IRS and Social Security Administration are matching names and Taxpayer Identification Numbers (TINs) and finding discrepancies between these records and the 1099 forms filed by payers. IRS notices are being issued and penalties are being assessed for TIN mismatches. The most common error causing a mismatch is for payers or recipients who are sole proprietors. The sole-proprietor/owner's name for **both** the payer and the recipient **must** be listed on the first line, and the business name, if any, **may** be entered on the second line. Always use the **payer's** Federal ID Number (FIN) instead of the social security number (SSN), unless a FIN has never been issued. The **recipient's** ID number may be **either** the SSN or FIN. The IRS prefers the recipient's SSN. Employers can visit the Social Security Administration website to verify SSNs online (<http://www.ssa.gov/employer/ssnvspamphlet.htm>). If you have any questions when preparing your 1099's, please call our office now and avoid costly IRS notices later. We have included a form W-9 on page 4; the IRS form to be used by payers to verify or obtain a TIN from a payee.

The exemption from reporting payments made to corporations no longer applies to payments for legal services. **You must report attorneys' fees (over \$600) whether they operate as corporations or as non-corporate entities on Form 1099-MISC.**

Some common examples of the types of payments that require a 1099 form for calendar year 2011 are:

1. **payments for services**, (including materials if incidental to the service) rendered by **unincorporated entities** (see exception re: incorporated attorneys above), such as, but not limited to, subcontractors, consultants or accountants, in amounts aggregating \$600.00 or more;
2. **payments for rent** of office space, land or equipment in the course of your trade or business in amounts aggregating \$600.00 or more to **unincorporated entities** (do not file to report rent received);
3. **payments of interest** made in the course of your trade or business to unincorporated entities aggregating \$10.00 or more, including interest on returned security deposits; and
4. **payments made by fishermen** to crewmembers for services in any amount (no minimum).

(Continued over)

**EMPLOYEE vs. INDEPENDENT CONTRACTOR WARNING:** Companies should seriously review the nature of their working relationships with their independent contractors. The IRS is continuing its reviews of companies who might be attempting to avoid employment taxes by misclassifying employees as independent contractors. The penalties levied on the business by the IRS for misclassification can be as much as twice the tax that would have been due had the worker been classified properly from the beginning. Until 2004, Massachusetts followed IRS guidelines, but on July 19, 2004 the Massachusetts legislature enacted a more stringent new law, as part of a public construction bill, which affects the classification of workers in all industries. On September 8, 2004, another new law increased the civil and criminal penalties for misclassifying workers as independent contractors. Information regarding this Massachusetts Independent Contractor Law, M.G.L. c. 149, § 148B, can be found at [www.ago.state.ma.us/filelibrary/148BAdvisory.pdf](http://www.ago.state.ma.us/filelibrary/148BAdvisory.pdf) as part of "An Advisory from the Attorney General." If you are not certain whether your subcontractors are properly classified, contact the professional handling your account.

**NEW HIRE REPORTING FOR INDEPENDENT CONTRACTORS:** Employers are required to report certain information on their newly hired **employees** to a designated state agency, i.e., Department of Revenue (DOR). With regard to independent contractors, companies must report all newly hired **independent contractors** to whom the company anticipates paying \$600 or more over the course of the year. These reports must be submitted to DOR within 14 days of the individual's first day on the job and must include the following information:

1. The company's name, address and federal employer identification number (FEIN);
2. The individual's name, address and social security number; and
3. The date that the individual started working or was reinstated.

There are two methods of reporting new hire information, which are as follows:

1. **Internet:** Visit <http://www.cse.state.ma.us> for detailed information on the new hire law and for online reporting of independent contractors. This is the DOR preferred method and is required for a company with 25 or more employees and/or independent contractors.
2. **New Hire Reporting Form:** The New Hire and Independent Contractor Reporting Form, Form NHR, can be used for a company without internet access if the company has less than 25 employees and/or independent contractors. The completed NHR form can either be faxed to DOR at (617) 376-3262 or a copy can be mailed to DOR, P.O. Box 55141, Boston, MA 02205-5141.

If you have questions you can call the DOR New Hire Unit at 617-626-4154.

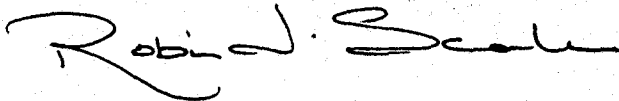
**MASSACHUSETTS COPY OF 1099 FORMS:** Massachusetts also requires the filing of 1099 forms. Massachusetts accepts copies of the IRS Form 1096 transmittal and all 1099 forms. Mail to: Mass. DOR, Form 1099 Reporting, P.O. Box 7045, Boston, MA 02204 by February 28, 2012.

**Remember that under audit, the IRS and MA DOR have routinely assessed penalties for non-compliance with 1099 requirements.**

Please contact our office if you need assistance in preparing 1099 forms or have technical questions on the filing requirements. **If we will be handling your 1099 preparation, please submit your information no later than January 14, 2012 in order for us to guarantee timely completion. "The Recipient's Copy" must be mailed on or before January 31, 2012.** A master **1099 Payee Data Form** is enclosed. Please use this form to provide your 2011 data and calendar year totals for each payee.

Please note: 1) Mailing address for information returns of Massachusetts based payers is: **Internal Revenue Service Center, Austin, TX 73301.**

2) The IRS requires a telephone number for a contact person in the filer name and address area on Forms 1098, W-2G, 1099-A/B/DIV/G/INT/MISC/OID/PATR/S/LTC.



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Enclosure: 1099 Payee Data Form

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