



**VERY IMPORTANT TAX INFORMATION (PLEASE READ)**

October 31, 2012

**To Our Clients:**

The IRS is on the lookout for noncompliant taxpayers and emphasizing the Form 1099 filing requirements that include not only payments for services provided by unincorporated businesses, but also rent, interest, dividends, and royalty payments. Specifically, the IRS income tax forms for corporations, partnerships, LLCs, sole proprietors, fiduciaries, and farmers include the following two questions:

1. Did the entity make any payments during the year that would require it to file Forms(s) 1099?
2. If “Yes”, did or will the entity file all required Forms 1099?

As your tax preparer, we are unable to answer the questions regarding Form 1099 preparation without you telling us if your Company is in compliance with the requirements. Therefore, we are asking each of our business clients to complete and sign the enclosed “Form 1099 Acknowledgment and Confirmation” and return it to us at the time that you provide us with your year-end tax information, so that we can properly answer the Form 1099 questions on your tax returns. If you do not provide this information to us, we will have no option but to leave the answers to the questions blank on your tax return.

It is very important that these two questions be answered on your respective tax returns. If the questions are not answered, then the IRS could consider the Company’s tax return to be incomplete. This could potentially extend the statute of limitations indefinitely with respect to that filing year, thus leaving open the possibility of IRS audit for an extended period of time. In order to help you to comply with the Form 1099 filing requirements for 2012, this letter includes a brief overview of those requirements.

If you have hired an independent contractor, the contractor must complete **Form W-9 Request for Taxpayer Identification Number and Certification (copy enclosed)**. This form is used to obtain the correct name, address, and TIN (Taxpayer Identification Number) for the independent contractor which is then reported on Form 1099-MISC for the year. You only need to request Form W-9 if you have not otherwise previously obtained the required information.

Report on Form 1099-MISC only when payments are made in the course of your trade or business, including farming activities. Personal payments do not need to be reported on Form

1099-MISC. Rental activities are required to prepare Forms 1099-MISC only if those activities are considered to be an active trade or business. Please discuss this kind of situation with your tax advisor at BSLR.

Form 1099-MISC must be filed for each person (including unincorporated businesses such as sole proprietorships, partnerships, LLCs and certain corporations), to whom you have paid the following during the year:

- At least \$10 in royalties
- At least \$600 in rents, services, prizes and awards (such as rent for office space, machine rentals, pasture rentals)
- Gross proceeds of \$600 or more paid to an attorney. (**NOTE:** The term attorney includes a law firm or other provider of legal services **regardless of whether or not the business is incorporated**). Attorney fees of \$600 or more paid in the course of your trade or business are reportable in box 7 of Form 1099-MISC.
- Compensation for services or other income payments

Some payments do not have to be reported on Form 1099-MISC, although they may be taxable to the recipient. Payments for which a Form 1099-MISC is **NOT** required include all of the following:

- Generally, payments made to a corporation. **NOTE:** As noted above, the exemption from reporting payments made to corporations does not apply to payments made for legal services. Therefore, you must report attorney fees in box 7 or gross proceeds in box 14 as described earlier to corporations that provide legal services.
- Payments for merchandise, telegrams, telephone, freight, storage, and similar items.
- Payments or rent to real estate agents.
- Wages paid to employees (report on Form W-2, Wage and Tax Statement).
- Cost of current life insurance protection
- Payments made to tax-exempt organizations
- Business travel allowances paid to employees

Please refer to the enclosed chart for additional Form 1099 filing requirements, including Form 1099-INT for the payment of interest.

If you have any questions regarding Form 1099 filing requirements or if you need assistance in preparing those forms, please call us immediately. We may be able to assist you in using your accounting software to identify potential Form 1099 recipients. The due date for mailing Forms 1099 to recipients is January 31<sup>st</sup> and copies of Forms 1099 must be filed with IRS no later than February 28, 2013.

Very truly yours,

***BALSAMO, STEWART, LUTTERS & RUTH, P.A.***

## 2012 FORM 1099 ACKNOWLEDGMENT AND CONFIRMATION

We confirm that we are aware of the annual filing requirements for Forms 1099. In that regard, we further confirm the following (check one, as applicable):

- The Company did make payments in 2012 that would require it to file Forms 1099 and it ***DID OR WILL*** file all required Forms 1099.
- The Company ***did NOT*** make payments in 2012 that would require it to file Forms 1099.
- The Company did make payments in 2012 that would require it to file Forms 1099 but it ***did NOT and will NOT*** file all required Form 1099. I/we acknowledge the risks associated with not complying with Form 1099 filing requirements and request that you inform the IRS on the respective tax forms that I/we are not complying with those requirements.
- I/we acknowledge the risks associated with not responding to IRS questions regarding Form 1099 filings and specifically request that you leave the answers to such questions **BLANK** on the 2012 tax forms.

\_\_\_\_\_  
Company Name

\_\_\_\_\_  
Signature of Company Representative

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## Form 1099 Filing Thresholds

Most taxpayers are familiar with the most common 1099 forms. Payors are required to report to the IRS and the recipients if payments during the calendar year exceed the minimum amounts below:

Purpose of Information Return	IRS Form	Minimum Reporting Amount
For services rendered by unincorporated businesses (i.e., sole proprietorships, partnerships and LLCs)	Form 1099-MISC	\$600
For payments to attorneys	Form 1099-MISC	\$600
For prizes and awards	Form 1099-MISC	\$600
For taxable dividends from earnings and profits	Form 1099-DIV	\$10
For taxable interest income	Form 1099-INT	\$10
For cancellation of indebtedness if involved in the business of lending money	Form 1099-C	\$600
For acquisition or abandonment of property that is security for a debt for which you are the lender	Form 1099-A	\$600
(Corporations only) For control changes or for shareholders who receive cash, stock, or other property upon a substantial change in the capital structure	Form 1099-CAP	Generally \$1,000