



Tax law

Get ready for more paperwork

Expanded reporting requirements for 1099s are now required for landlords and will be required in 2012 for all businesses.

by Kinski Leuffer

If you're engaged in business and pay someone \$600 or more per year for services, you're required to file a 1099—unless you're making a payment to a corporation for these services. And a new federal law, which went into effect Jan. 1, 2011, now extends this requirement to landlords.

In 2012, a second part of this new law will further expand the reporting requirements in several ways:

- All businesses will be subject to the requirements.
- Payments to corporations will need to be reported (tax-exempt organizations will still be excluded).
- Payments for tangible goods will need to be reported in addition to services.

What does this mean for landlords?

Anyone receiving rental income from real property (residential and commercial) must now provide a 1099 to the IRS and the service provider reporting payments of \$600 or more for rental property expenses in a year. Property managers were already required to comply with these reporting requirements.

There are exceptions to this expansion. The reporting requirements do not apply to:

- members of the military or employees of the intelligence community if substantially all rental income comes from renting their principal residence on a temporary basis
- an individual who receives rental income of a minimum amount
- an individual for whom the requirements would cause a hardship

The IRS will decide what constitutes a "minimum amount" or "hardship."

What does this mean for everyone else?

Starting Jan. 1, 2012, all businesses—including sole proprietors and independent contractors—will be subject to these requirements. That means

that if you purchase \$600 or more per year in goods or services from a payee, you have to file a 1099 with the IRS and provide a copy to the payee.

Are there any exemptions?

The IRS proposed an exemption to these requirements for purchases made with credit or debit cards, since these purchases are already reported by banks and other financial institutions. However, it's unclear if this proposal has been adopted. Check with your tax professional to ensure you're in compliance with the latest regulations.

What should I do?

You should start tracking payments and sending all payees a W-9 to request their taxpayer identification number, which you will need to file a 1099. If the payee fails to provide a taxpayer identification number, you will have to withhold 28% of the amount to be paid to the payee and send that percentage to the IRS.

Consult with your tax expert, because failure to comply with the reporting requirements could subject you to civil penalties and criminal penalties.

For more information, please visit IRS.gov and Realtor.org.

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