The Contractor 1099 Checklist Every Vet Practice Should Follow

Nate: So as we approach year-end here, one of the lower bar, I will say, compliance items that is important, but certainly maybe not front of mind as much as income taxes are or something like that for folks, is Forms 1099, which is for payments for things like rent, to contractors, you know, if that's temp folks, or, you know, type thinking in the trades, those sorts of things. Any kind of services that are being facilitated with some sort of cash or near cash payment, right, is what's typically encompassed in in that reporting, which tends to start much earlier in the year, or should start much earlier in the year than right now. But this is maybe the first time folks are starting to think about it. And you know, it seems like a regular occurrence, right? Different businesses will have new contractors that they've never used before, and maybe they're scrambling a little bit to get all the information needed to figure out, do I even need to issue a form to this person or entity? And here we are, as we sit about this time in the year, in late fall, what are some things that they should be thinking about to try and make that rush, that year-end rush, that angst, to be a little bit less as it relates to contractor reporting?

Andy: I find it interesting that you, you started by saying: this is a low bar item. I think we, we both know it can be, it should be a low bar item, but January 20th, if, if we haven't done planning, and it can be a very annoying and expensive process. And so I think with some good, proactive planning and some ground rules, I think it can be a low bar, low annoyance and low cost process.

Nate: Yeah, and this is a, this is an item that we see frequently outsourced, right, either to a platform like a third-party payroll processor, to CPA firms, public accounting firms, or just, you know, bookkeeping firms in general, that that's kind of what they do. And the pattern for many seems to be, okay, we go about our business during the year, we make these payments, we get around a year-end, and we revisit all of the transactions we've had and figure out, okay, what do we need to do here? Is this reporting? Is it not, and really, the IRS has said that the burden for figuring out whether you're, you need to issue one of these forms comes with, who's ever paying the bills, whether that is the business, whether that is being outsourced to a provider, whether that's being run through a payroll platform. They're in charge of gathering the information needed to determine whether one of these forms is needed, and really it should happen at the time they're being used, right, when they're first being paid for their services.

Andy: And to me, that's where the best practices start, right, is, is the minute you are engaging a contractor, is give them that W9 form, okay, and then it's obviously, it's up to them to fill it out accurately and completely, but before you issue them payment for their first invoice, you need to have a W9 in hand.

Nate: That's the best way to get compliance, right? Once they have that payment, who knows? It is not going to be a priority, but I promise you it will be if you simply relay that, Hey, we're setting you up as a vendor to make this payment for you, for your services. We need you to complete this.

Andy: And we've all been there. We wait till the calendar turns and it's January 25th and the 1099 is due January 31 and you try to track down a vendor, especially if they're not doing services from you. They go dark. They ghost you very quickly, and we've even seen it where they might be providing services to you, that might be the time they decide to stop providing services to you and disappear or ghost you.

Nate: That's right. I mean, jokingly, I think we've all probably had clients that have gotten some sort of ultimatum like that, like, Don't you dare issue me one of those forms. And it's always funny to hear from our end, but it happens infrequently, but to manage that, the best thing you can do is to really address it upfront and have all of that in-house well ahead of, well ahead of reporting. And you know, of course, related to contractors. Common question we get is, is this actually a contractor, if I'm thinking about hiring somebody, or is this an employee? That is really a much more in-depth conversation, but really that folks should know that there are some guidelines that you can rely on, and they're out there. There's resources out there, besides talking with your professionals before you agree to make that decision, and as you're setting up those arrangements with contractors.

Andy: Totally agree. And I would just, I'd like to alert everybody on this topic, because it is separate, the employee versus independent contractor. But I have seen a bit of a trend in companies where they will kind of do a temp-to-hire. You know, okay, we're gonna, we're gonna bring this person aboard for a day or two or three, see if it works out. If they don't work out, we won't put them on payroll. Maybe we'll issue them a 1099, for, for the 1, 2, 3 days or a week that they were employed with us. And that doesn't work. If you do get a, an audit, they will have wanted that even one day employee to be a part of your payroll, and for you to be paying both payroll taxes and unemployment taxes in for that individual.

Nate: That's right, there's a lot of agencies at many levels that will care about that: at the state level, federal level, the unemployment folks, the Department of Workforce Development folks, workers comp. Everybody's got a stake in this, and the stakes can be higher than they maybe need to be. So the best thing you can do is be vigilant, be timely, and really think this through, and do your diligence ahead of time.

Andy: Another best practice I'll highlight is, okay, I got the W9, you know, keep those, keep those in a place where you're ready to hand those to whoever is going to prepare your 1099, in a nice, tidy file. And also flag those general ledger accounts in QuickBooks, those vendors in QuickBooks, so that it's very easy to just print out that year-end report of, these are the contractors or the vendors that are going to need a 1099, these are the amounts that they should be issued, and here's their address and ID number, etc. That, to me, is the best practice to make the process seamless and cost effective.

Nate: So really, I think for some folks, this is going to be a bit of a lift, initially, to put some of this, these best practices in place, but it pays dividends year over year, keeping these policies in place and keeping things tidy going forward.