



In this episode Eric & Melissa tackle the often puzzling topic of business entities & 1099's.

Choosing the correct entity for your business can make a huge impact to your bottom line. As a default your business will automatically operate as a sole proprietor. However is that really the most advantageous for you? What other options do you have?

Understanding the different types of business entities. As a business owner you can elect to become an S-Corp, C-corp., or LLC. If no choice is made your business will automatically operate as a sole proprietor.

A word about 1099's. How do you handle 1099's? Let's first discuss the filing and reporting requirements of a 1099.

Payments in excess of \$600. If you have made payments to a contractor (someone not employed as a W-2 wage earner for your business) \$600 or more in a calendar year you are required to issue them a 1099 *If you spend 600+ dollars on a vendor that has any kind of corporate ID (S-corp and C-corp) then you don't need to issue them a 1099*

Where to start. Make it a standard business practice to obtain a W9 from any vendor your submitting a payment to. A blank W-9 form can be found [HERE](#)

Avoid alternate forms of payment. Be cautious when paying vendors via cash, cash app, zelle, venmo, etc. For years many individuals believed that sending a receiving money thru alternative payment sources was a way to avoid income being reported to your state tax agency and the IRS. This is no longer the case. New reporting requirements require that ALL electronic payment providers keep track of transaction data. If you have an account in one of those apps and it is linked to your business, ANYONE you send \$600+ will get issued a 1099. It should also be noted that the IRS tends to look down on deductions claimed for payments made via alternative payment sources.

Proof & documentation. While it may seem like a lot of effort to issue 1099's they provide you the business owner with indisputable proof of the deduction for payment to outside labor. 1099's are important when making tax claims for deductions. You want to be sure you issue 1099 for proof of payment. Just like any other deduction if you do not have proof of the payment and that the payment was made for legitimate business purposes it may be disallowed and you won't be able to claim the deduction.

What about Rent? Specifically for lease or rent payments made to non-corporations. If you are renting from an individual or organization that rents properties independently and not through a corporation then you should be issuing a 1099.

Is there a deadline? The deadline to issue (either by mail or electronically) 1099's is January 31. *In the event you miss the deadline to issue 1099's it is best to get connected with your accountant on how to handle the situation.*

Diving into Corporations.

LLC's. An LLC is not considered a "corporation". Think of an LLC not as a business entity but as protection of your personal assets. It's more like the umbrella of a corporation. Establishing an LLC means your personal assets are protected under the "umbrella" of the LLC.

C-Corporations (C-Corps) C-Corps pays its own taxes. Owners get paid by the corporation, by dividends, or may be on payroll for the company. Most larger businesses will operate as C-Corps.(i.e. Coca-Cola, Pepsi, General Electric, etc.). It is important to note the a C-Corp is a stand alone entity. Payments to owners are reports on K-1's and the C-Corp is responsible for its own taxes and tax filings.

S-Corporations (S-Corps) S-Corps are generally referred to as pass-through entities. In the case of the S-Corp Income to owners will also result in a K1 being issued however owners of the corporation are responsible for the corporation's tax liability. Owners are required to pay themselves a 'fair wage'.

Partnerships. A partnership occurs when two or more individuals are involved in a company and share everything (both income and expenses) while there are some similarities to an s-corp but a partnership does not require owners to be paid a wage.

Proceed with caution and consult a tax professional. The tax benefits of operating your business as a C-Corp, S-Corp or Partnership can be incredibly beneficial. All come with important compliance and reporting requirements. A licensed tax professional such as the team at Busy Bee Advisors will be able to assist you in navigating thru these complexities. For more info on 1099's,W9's,S-Corps,C-Corps, and partnerships ask your accountant or get connected with Busy Bee Advisors.

Eric & Melissa Broughton are Co-Owners of Busy Bee Advisors a Northern California Based Tax and Accounting Firm specializing in helping their client to pay their fair share in taxes. They are also hosts of the popular podcast **The Real Buzz: Taking the sting out of Taxes** (available to download on all major podcast platforms). Melissa is proud to be the author of *Busy Bee Advisors Guide to Basic Bookkeeping* and *The 4-Hour Bookkeeper* both titles are available at INeedBookkeeping.com
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