

Year end and 1099's

1099's for 2007 are due to your Contract Labor vendors by Jan 31st. Even if you did not set up your 1099 tracking correctly in QuickBooks at the beginning of 2007, you can capture the information by setting it up now. As with any year-end report processing, I always recommend reconciling all of your checking accounts prior to preparing your reports. As with W-2's, the data you provide to your 1099 vendors will have personal income tax consequences for them, and it's important the information you report to them and to the government is accurate. The first step in 1099 processing is to be sure you know who to send 1099's to and have the system set up correctly in QuickBooks. The general rules are that for every unincorporated vendor you contract for labor or labor and material services combined, you must have them complete a form W-9, which provides you with their Tax ID#*. In order to generate a 1099 report for this vendor at the end of the year, you must set up the vendor properly in QuickBooks by clicking on the "Additional Information" tab in the vendor record, checking the "Vendor eligible for 1099", and enter the vendor's tax id#. This part of 1099 processing is pretty intuitive, as you are likely to notice these options during vendor set up. However, this is not all you need to do in order to generate the 1099's in QuickBooks. You also need to go into the "Edit" "Preferences" menu. Near the bottom of the list you will see the option "Tax:1099", click on this option and the tab "Company preferences". If you are not sure about what to do here, by all means, consult the IRS web site at www.irs.gov or your tax professional. For most contractors, we are focusing on contracted labor services, which should be reported in box 7 for "non-employee compensation", which has a default threshold of \$600*. Here we need to tell QuickBooks which accounts to apply 1099 reporting to. This step is required in order to generate 1099's in QuickBooks. The reason QuickBooks needs to know this is that not all payments you make to your 1099 vendors may be reportable on the 1099 as non-employee compensation. For instance, if you happen to reimburse them for materials or mileage, these payments may not be included on the 1099*. In this space, I usually select the "multiple accounts" option and choose any accounts that I may pay a 1099 vendor that may qualify as non-employee compensation. You must consider how your items are set up as well and be sure accounts that are linked to items that may include employee compensation are included here. For instance, you may choose your Cost of Goods Sold Account called "Sub-Contractor Costs", but you may sometimes pay your subcontractors with an item linked to a generic Cost of Goods Sold Account, in this case you may need to include this account as well. Keep in mind, though, that material purchases only are generally not included in 1099, only labor or labor and materials contracted in combination*. After saving these preferences, you should be ready for 1099 processing. The next step is to run a 1099 detail and 1099 summary report from the "Reports" "Vendors and Payables" menu and review the transactions that are included carefully. I also run a "Transaction List by Vendor" report for the entire year to be sure I have not missed any vendors who should receive a 1099. Now I will go to the "Vendor" menu and "Print 1099's and 1096's". In this menu QuickBooks has a 4-step process similar to that I have outlined here. Believe it or not, I step through each step once again as a final check. By this time, you should feel confident enough to run your 1099's. If you are having difficulty capturing the information, or are unsure of the proper set up, contact a QuickBooks

expert or your Tax Professional for advice. *NOTE: I am not a tax professional and do not profess to advise 1099 or tax reporting requirements. These instructions are intended to generalize the reporting IRS reporting requirements in order to provide technical information on how to set up QuickBooks properly for reporting. Please consult your tax professional or the IRS for complete 1099 reporting requirements.

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