Dedekian,
George, Small
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accountancy corporation

January 2012

FORMS 1099 FILING REQUIREMENTS

To Our Clients:

This letter is to remind you of the requirements for filing Federal Informational Returns (Forms 1099) and the penalties for failure to do so.

If you are in a trade or business and made certain payments (listed below) to non-corporate payees of $600 or more and attorneys (even if incorporated and regardless of amount paid) during the calendar year 2011, you are required to file Informational Returns (Forms 1099) and provide the recipient with a Form 1099. The recipient must receive the Form 1099 by January 31, 2012 and copies must be filed with the Internal Revenue Service (IRS) by February 28, 2012 (April 02, 2012, if filing electronically). The IRS will forward the information to the Franchise Tax Board.

The IRS penalty for failure to file Informational Returns is based on when you file the correct information return and if you qualify as a small business (you are a small business if your average annual gross receipts for the 3 most recent tax years ending before the calendar year in which the information returns were due are $5 million or less). IRS penalties are as follows:

$15 per information return if you correctly file within 30 days (by March 31 if the due date is March 1); maximum penalty $75,000 ($25,000 for small businesses).

$30 per information return if you correctly file more than 30 days after the due date but by August 1; maximum penalty $150,000 per year ($50,000 for small businesses).

$50 per information return if you file after August 1 or you do not file required information returns; maximum penalty $250,000 per year ($100,000 for small businesses).

If the failure to file is a result of intentional disregard of IRS requirements, a penalty of not less than $100 per information return will be applied (the maximum will be disregarded in this situation). Also, failure to obtain and to report the recipient's identification number will result in a $50 penalty per failure.

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The FTB will assess similar penalties. To ensure that you have this information for future reporting periods, obtain the recipient's social security number or federal identification number using Form W-9 (which we have attached a copy of and is also available from our office) before making your first payment to them.

Forms 1099 payments required to be reported are:

1. Personal service (these payments are for anything other than a tangible commodity);
2. Fees;
   - 2.1 Including any and all fees paid to attorneys (even if incorporated).
   - 2.2 The $600 minimum filing requirement does not apply to attorneys.
3. Commissions;
4. Prizes or awards which are not for services rendered;
5. Gross royalty payments (payments of $10 or more must be reported);
6. Gross rents;
7. Interest and dividends (payments of $10 or more must be reported);
8. *Entire* amount of total distribution from profit-sharing, retirement plans, individual retirement accounts, and insurance contracts (not subject to the $600 minimum filing requirement); and
9. Nominee distributions (i.e. anyone receiving a Form 1099 for amounts that belong to another person).

Form 1099-MISC is used to report payments to non-employees (i.e. independent contractors.) If you have any questions as to the determination of employee or independent contractor status, please contact our office.

Contractors: A subcontractor must have a valid contractor's license to qualify as such, and not be classified as an employee by the Internal Revenue Service and the Employment Development Department.

Attorneys: This requirement includes corporations.

REMINDER: An employee's travel or automobile allowance should be reported on Form W-2 and not on Form 1099-MISC.

If you would like us to prepare your Forms 1099, please complete the attached Forms 1099 Data Sheet and contact our office immediately regarding the time needed and the related fees for this service. If you have more than four Forms 1099 for our office to prepare, please copy the data sheet as many times as you may need.

Should you have any questions regarding any of the information contained in this letter, please don't hesitate to contact our office.

Yours truly,

Dedekian, George, Small & Markarian

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Accountancy Corporation

FORMS 1099 DATA SHEET

Payer's Information

Name:________________________________ Phone:__________________________

Street Address:____

City, State, and Zip Code:____

Employer Identification # / Social Security #:_________________________

Recipient's Information

Name:________________________________ Phone:__________________________

Street Address:____

City, State, and Zip Code:____

Employer Identification # / Social Security #:_________________________

Type of Payment (i.e. personal service, rent, interest, etc.):______________

Amount Paid for Calendar Year 2011:____________________________________

Name:________________________________ Phone:__________________________

Street Address:____

City, State, and Zip Code:____

Employer Identification # / Social Security # :________________________

Type of Payment (i.e. personal service, rent, interest, etc.):______________

Amount Paid for Calendar Year 2011:____________________________________

Name:________________________________ Phone:__________________________

Street Address:____

City, State, and Zip Code:____

Employer Identification # / Social Security # :________________________

Type of Payment (i.e. personal service, rent, interest, etc.):______________

Amount Paid for Calendar Year 2011:____________________________________

Name:________________________________ Phone:__________________________

Street Address:____

City, State, and Zip Code:____

Employer Identification # / Social Security # :________________________

Type of Payment (i.e. personal service, rent, interest, etc.):______________

Amount Paid for Calendar Year 2011:____________________________________