



Annual 1099 reporting is one of the more confusing and burdensome compliance exercises that American businesses must go through each year. Many categories of information reporting are mandated by our government. In short, it is used to inform the government about reportable transactions that occurred during the year. Copies of the information return reporting are required to be filed with the government and provided to the affected party (usually the recipient of reportable payments).

The universe of US information return reporting is vast. In this article, we're going to focus our attention on just the 1099 reporting which is quite common for consignment and vendor-based businesses. It's important to know that your business may be subject to *additional* 1099 reporting requirements as well, which is why you should work closely with a qualified tax advisor to help keep your business fully compliant.

### **Understanding 1099 Reporting for Consignment and Vendor-Based Businesses**

There is often confusion about 1099 reporting requirements for consignment and vendor-based businesses. Let's clarify the most common forms and situations:

- **1099-MISC Reporting:** This form is used to report various payments, including rents. However, businesses aren't necessarily required to report real estate rental payments. If you paid rent to a real estate agent or property manager, the reporting requirement falls on them, not you. Keep in mind that only rental payments totaling \$600 or more during the year are potentially reportable.
- **1099-NEC Reporting:** This is the 1099 report that is most relevant to consignment and vendor businesses. It is used to report payments to non-employees for services. However, it's crucial to understand that payments for merchandise are exempt from 1099-NEC reporting. This means that payments made to consignors/vendors for the purchase of their merchandise are **not** reportable.

### **Common Misconceptions**

There are some common misconceptions about 1099 reporting for consignment and vendor businesses. Let's address a few:

- **Misconception 1:** Some mistakenly believe that payments to consignors/vendors for merchandise should be reported in Box 3 (Other Income) of Form 1099-MISC. This is incorrect. The instructions for Form 1099-MISC clearly state that payments for merchandise are exempt.
- **Misconception 2:** Some believe these payments should be reported in Box 7 of Form 1099-MISC or Box 2 (Direct Sales) of Form 1099-NEC. Again, this is not accurate. These boxes are intended for direct selling establishments (like Avon or Mary Kay) and



do not apply to payments for merchandise to consignors/vendors.

- **Misconception 3:** Some think that 1099-K reporting applies to payments made to consignors/vendors. This is also incorrect. 1099-K reporting is for third-party settlement organizations (processors of payment cards and third-party network transactions), not for standard business-to-business transactions.

**Disclaimer:** All of the information provided above solely represents our interpretation of 1099 reporting instructions and is not intended to be legal advice in any way. We highly recommend that you work closely with a qualified tax advisor to ensure your business remains fully compliant with 1099 reporting requirements specific to your unique situation.