



CALLING ALL Small Business Owners 💰 THIS ISSUE IS FOR YOU!!!

Hey there, **business bosses!** ❄️

While the temps may be dropping, it's time to turn up the heat on your tax prep — and today's topic is one every entrepreneur and freelancer should master: knowing the difference between employees and independent contractors.

This tax season, we're diving deep into what truly separates the two, and why proper worker classification is so critical. From understanding when to issue a Form 1099-NEC vs. 1099-MISC to the major financial consequences of misclassification, I'll help you avoid common pitfalls and share steps for correcting any past errors — because yes, the IRS does allow corrections if you're proactive.

💡 **Don't have a bookkeeping system in place?**

No worries, I've got you covered! Head over to Syreeta.biz and grab downloadable expense tracking spreadsheets that can help you organize your finances, especially if you're not using apps like QuickBooks or Wave, or if you're managing records manually.

And as a bonus, I'm also including a handy list of important tax deadlines for different business structures to help keep you ahead of the game.

Let's get into it and make sure your business stays IRS-ready, compliant, and organized all season long! 📊📅

In this newsletter
you can expect:

Difference Between
Employees and
Independent
Contractors

Difference between
issuing a Form 1099-
NEC and a Form
1099-MISC

Correcting
Misclassifications

Important Dates for
Business Owners

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Difference Between Employees and Independent Contractors

Definition and Criteria:

- Employees are individuals whose work is controlled by the employer not just regarding what is to be done but how it is to be done. The employer sets work hours, provides tools, and is responsible for the business aspects of the worker's job.
- Independent Contractors perform services for a business but maintain control over how those services are executed. This means they usually offer their services to the public, bear the responsibility for the completion of a job, and control the means and methods of their work.

Examples:

- An Employee might be a receptionist who works at a company's front desk, using company equipment, following a strict schedule set by the management.
- An Independent Contractor could be a web developer who is hired to design a website but uses their own tools and methods, decides their work hours, and often works for multiple clients.

What Makes Someone an Independent Contractor

- Key Factors (from the IRS Common Law Rules):
- Behavioral Control: Independent contractors control where, when, and how they work; no detailed instructions are provided.
- Financial Control: They often have a significant investment in their equipment, seek to make a profit or risk a loss, and manage expenses independently.
- Relationship Type: They usually have a contract specifying a temporary relationship and are not provided benefits such as pensions, insurance, or vacation pay.

Examples:

- A graphic designer uses his own software and equipment, works for several clients, and sends invoices for completed projects, marking him as an independent contractor.
- A marketing consultant hired for a 3-month project under her own name, using her methods to deliver results, and not receiving employee benefits.

Aspect	Employees	Contractors
Payment	Fixed salary or hourly	Paid per project/milestone
Taxes	Employer withholds taxes	Pay own self-employment
Tax Reporting	W-2 filed by employer	Receive 1099-NEC form

Difference Between Issuing Form 1099-NEC and Form 1099-MISC

The **difference between issuing a Form 1099-NEC and a Form 1099-MISC** lies in the type of payments each form is used to report to the Internal Revenue Service (IRS). Both forms are used to report non-employee compensation but are designated for different types of payments:

Form 1099-NEC

- Purpose: This form, whose title stands for "Nonemployee Compensation," was reintroduced in tax year 2020 to specifically report payments of \$600 or more to non-employees such as independent contractors, freelancers, and others who perform work which is not part of the payer's usual business activities.
- Common Uses: Payments for services performed by someone who is not your employee, including parts and materials if they were included in the payment for services, and payments to attorneys for fees (regardless of whether they are incorporated or not).

Here are examples that illustrate when and how to use Form 1099-NEC and Form 1099-MISC, showcasing the common uses and the key differences in the context of real-life business scenarios:

Form 1099-NEC Examples

1. Independent Web Developer: Suppose you own a small marketing firm and you hire an independent web developer to redesign your website. If you pay the developer \$800 for this service, you would issue a Form 1099-NEC because the payment exceeds the \$600 threshold and is for services performed by a non-employee.
2. Freelance Graphic Designer: If you contract a freelance graphic designer to create marketing materials and you pay them \$1,500 over the course of the year, you would need to issue a Form 1099-NEC. This form is used even if the payment includes expenses for materials like software or stock images used in the design process.
3. Consulting Attorney Fees: When you pay an attorney \$2,000 for consulting services related to your business operations, regardless of whether the attorney is part of a corporation or operates independently, this also requires a 1099-NEC.

FORM 1099-MISC VS. 1099-NEC

Form 1099-MISC

- Use to report payments and miscellaneous income
- Due by March 1 if filing a paper form and due March 31 if e-Filing
- Has 5 copies (Copy A, B, C, 1, and 2)
- Submit Form 1096 along with the form

Form 1099-NEC

- Use to report independent contractor payments
- Due to the IRS and contractors by January 31
- Has 5 copies (Copy A, B, C, 1, and 2)
- Submit Form 1096 along with the form

Form 1099-MISC

- Purpose: The 1099-MISC form is used for various types of payments other than nonemployee compensation.
- Common Uses: This form is utilized for reporting other types of compensation such as rent, prizes and awards, medical and health care payments, crop insurance proceeds, cash payments for fish (or other aquatic life) purchased from anyone engaged in the trade or business of catching fish, and payments to an attorney that are not fees for services (like settlements).

Key Differences

- When to Use: Use the 1099-NEC to report specific nonemployee compensation of \$600 or more. In contrast, use the 1099-MISC for the various other types of payments as outlined above.
- Filing Deadlines: For 1099-NEC, the deadline for filing with both the IRS and the recipient is January 31 of the year following the payment. The 1099-MISC also has various deadlines, but they can vary depending on the specific type of payment being reported; however, it generally must be filed by January 31st if reporting non-qualified deferred compensation and February 28th if filing by paper, or March 31st if filing electronically for other types.

Form 1099-MISC Examples

1. Office Rent: If you rent office space for your business and pay your landlord \$10,000 a year, you would issue a Form 1099-MISC to report the rent payments, as this is a type of payment other than nonemployee compensation.
2. Healthcare Services: When your business pays a freelance nurse \$700 to provide health checks for your employees, you would use Form 1099-MISC to report these medical and health care payments.
3. Awards for Employees: If you award a \$1,000 cash prize to an employee for the best performance of the year, this would be reported on Form 1099-MISC under prizes and awards.
4. Fish Purchases: For a restaurant owner who purchases \$1,200 worth of fish from a local fisherman over the year, the payments should be reported on Form 1099-MISC because it's a payment for fish purchased from someone engaged in the fishing business.
5. Settlement Payments to an Attorney: If your business had to settle a lawsuit and the settlement payment directed to the plaintiff's attorney totaled \$5,000, this type of payment would be reported on Form 1099-MISC under payments to attorneys that are not for services.

Key Filing Deadlines

- 1099-NEC: Must be filed with the IRS and provided to the recipient by January 31st of the year following the payment.
- 1099-MISC: Varies based on the type of payment; for most types, it is also due to the IRS by January 31st if reporting non-qualified deferred compensation, or by February 28th if filing by paper, and March 31st if filing electronically for other types.

These examples help clarify the usage of each form based on the type of payment, ensuring that your business remains compliant with IRS regulations while accurately reporting various types of transactions.

Both forms are crucial for accurate tax reporting and ensuring compliance with IRS regulations. Choosing the correct form depends on the nature of the payment and adhering to the specific reporting requirements for each is essential to avoid penalties.

Correcting Misclassifications

Correcting misclassifications of your workers—from independent contractors to employees and vice versa—is crucial for your business on many levels. It ensures you’re following the law, treats your workers fairly, and safeguards your operation against potential fines and penalties.

What Does Correcting Misclassifications Mean for Your Business?

Staying on the Right Side of the Law: It's all about being compliant. Different rules apply to employees versus contractors when it comes to wages, benefits, and taxes.

Handling Taxes Properly: Employees have taxes withheld by the employer, while independent contractors manage their own tax payments. Getting this right avoids tax headaches down the line.

Avoiding Financial Pitfalls: If you've got misclassifications, you might owe back taxes and penalties. Programs like the IRS Voluntary Classification Settlement Program can help reduce these costs, making the correction process less painful financially.

Operational Tweaks: Once you've corrected classifications, you may need to adjust how you manage these workers. This might include updating payroll systems or reworking contracts.

Boosting Your Reputation: Showing that you classify workers correctly demonstrates your commitment to ethical practices and can enhance your reputation with everyone from customers to regulatory bodies.

Reducing Audit Risks: By sorting out misclassifications, you're less likely to attract intense scrutiny from tax authorities or labor departments, letting you focus more on running your business.

Friendly Steps to Fix Misclassifications:

- **Review Your Current Setup:** Take a close look at whether your workers are classified correctly under current laws.
- **Get Expert Advice:** Talk to legal and tax professionals to understand the best steps forward and how to handle potential implications.
- **Catch Up on Payments:** If you owe back wages or taxes due to misclassification, it's time to settle those accounts.
- **Adjust Your Business Practices:** Make any necessary changes to your business operations to align with correct classifications.
- **Keep Good Records:** Document everything you do to correct classifications—from the decision process to communications with affected workers.

Correcting misclassifications is more than a regulatory must-do; it's a significant step toward ensuring fair treatment for your team and stabilizing your business's future. Let's tackle it together with care and thoroughness, so everyone benefits.

Important Dates for Business Owners

Important Tax Dates for Business Owners (Filing 2025 Taxes in 2026)

Whether you're a Sole Proprietor, LLC, Corporation, or Non-Profit, staying on top of deadlines is key to avoiding penalties and staying compliant. Below is a quick-reference guide for tax year 2025, with filing deadlines in 2026.

Sole Proprietorships

- Tax Return (Schedule C on Form 1040): April 15, 2026
- Extension Deadline: October 15, 2026
- Estimated Quarterly Tax Payments:
 - April 15, 2026
 - June 17, 2026 (June 15 falls on a weekend)
 - September 16, 2026 (September 15 falls on a weekend)
 - January 15, 2027 (for Q4 of 2026)

S Corporations (Form 1120S)

- Tax Return Due: March 17, 2026 (March 15 is a Sunday)
- Extension Deadline: September 15, 2026
- Estimated Tax Payments: If applicable, use individual due dates above.

C Corporations (Form 1120)

- Tax Return Due: April 15, 2026
- Extension Deadline: October 15, 2026
- Estimated Tax Payments:
 - April 15, 2026
 - June 17, 2026
 - September 16, 2026
 - December 16, 2026 (December 15 is a Sunday)

Limited Liability Companies (LLCs)

- Single-member LLCs: File same as sole proprietorship (Form 1040 + Schedule C)
- Multi-member LLCs: Treated as partnerships; see below

Limited Partnerships (Form 1065)

- Tax Return Due: March 17, 2026
- Extension Deadline: September 15, 2026
- Estimated Taxes: Individual partners may need to make quarterly estimated payments based on their share of income.

Non-Profits (Form 990)

- Tax Return Due: May 15, 2026
- Extension Deadline: November 15, 2026 (via Form 8868)

Form 1099 Filing Deadlines

- Form 1099-NEC:
 - Due January 31, 2026 to both IRS and recipients
 - No extensions allowed
- Form 1099-MISC:
 - To recipients (if reporting non-qualified deferred compensation): January 31, 2026
 - To IRS (by paper): February 28, 2026
 - To IRS (electronic): March 31, 2026
 - With extension: September 15, 2026 (only for non-deferred comp reporting)

Important Dates for Business Owners

Additional Notes

- Calendar Year Assumed: If your entity operates on a fiscal year, deadlines may vary.
- Extensions Do Not Delay Payment: Filing an extension gives more time to file, but not to pay. Penalties and interest apply if payment is late.
- Timely Filing Tip: Always submit extension requests (like Form 4868 or 7004) by the original return due date.

 **Pro Tip: Bookmark this list and set calendar reminders. Staying organized is one of the best ways to reduce stress and keep your business audit-ready!**

QUESTIONS?
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NEXT ISSUE

THE MASTER TAX
DEDUCTION LIST FOR
SMALL BUSINESS OWNERS



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Thank you for reading!