IRS Form 1099 Issues: Proper Reporting and Correcting Errors

JC Hobbs – Associate Extension Specialist Department of Agricultural Economics Oklahoma State University March 27, 2025

info@RuralTax.org RuralTax.org

1



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- None of what is presented should be considered formal legal or tax advice
- This presentation is for educational purposes
- Consult with trusted professionals concerning your specific situation

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3

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- Website hosted by Utah State University
- Material developed, managed, and owned by the National Farm Income Tax Committee
- Informational Material on a variety of Topics but not limited to:
 - · Disaster/Weather Losses
 - · Treatment of Government Payments
 - · Farm Losses and Hobby Rules
 - Self-Employment Taxes
 - · Estate and Gift Taxes
 - Like Kind Exchanges
 - · Depreciation
 - Etc...

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Forms to be Discussed

- 1099-MISC: Rents, Royalties, and Other Income
 - · Cash Crop Rent
 - Oil and Gas plus Wind Turbine Royalty Income
 - Working (Temporary) Easements, Crop Damages, Crop Insurance, etc.
- 1099-NEC: Nonemployee Compensation
 - Custom Hire, Independent Contractors, Mechanics, etc. (services performed by a nonemployee)
 - Direct Product Sales > \$5,000

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5



Forms to be Discussed

- 1099-S: Real Estate Transactions
 - Land Sales and Permanent Easements
 - Timber Sales
- 1099-G: Certain Government Payments
 - Federal, state, or local government payments
 - Government agency payments
 - Taxable Grants

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Proper Reporting

- Payor Requirements for 1099-NEC
 - Get a signed Form W-9: "Request for Taxpayer Identification Number and Certification" (Have this completed before work begins)
 - Complete the Form 1099 with amounts in correct boxes of the correct form (typically your accountant will do this)
 - Due to payee by January 31st of the following year
 - Correct any errors that are reported to you by the recipient and reissue the form

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7



Form W-9 Issues

- Incorrect SSN or EIN provided by payee
 - Payor will get a letter from the IRS stating that the SSN or EIN did not match the name on the form and that payor should get the correct number or not use this individual again
- Payee will not sign a Form W-9
 - Payor must apply the backup withholding rules and withhold 24 percent of the amount paid and send that to the IRS
 - Payee will have to file a return to get any excess amount paid to IRS as a refund

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Proper Reporting on Form 1099

- Recipient Requirements
 - Check the form for accuracy
 - Inform the payor if there is an error
 - If there is an error, the IRS instructs the recipient to contact the payor and request a corrected Form 1099
- Payor Requirements
 - Correct the error and reissue a corrected form to the payee

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9



Form 1099-MISC

		CORRE	CTED (if checked)				
PAYER'S name, street address, city of or foreign postal code, and telephone		1 Rents	OMB No. 1545-0115				
			\$	Form 1099-MISC		Miscellaneous	
			2 Royalties	(Rev. January 2024) Informat			
				For calendar year			
			\$				
			3 Other income	4 Federal income tax	withheld	Copy B	
			\$	\$		For Recipient	
PAYER'S TIN	RECIPIENT'S TIN		5 Fishing boat proceeds	6 Medical and health payments	care		
				\$			
RECIPIENT'S name			7 Payer made direct sales totaling \$5,000 or more of	8 Substitute payment of dividends or inter	This is important tax		
			consumer products to recipient for resale	\$	information and being furnished		
Street address (including apt. no.)		9 Crop insurance proceeds	10 Gross proceeds pai attorney				
			\$	\$		penalty or other	
		ostal code	11 Fish purchased for resale	12 Section 409A deferrals		sanction may be imposed on you i this income is	
			\$			taxable and the IRS	
		13 FATCA filing requirement	14 Excess golden parachute payments	15 Nonqualified deferre compensation	ed	determines that it has not been reported.	
			\$	\$		reported.	
Account number (see instructions)			16 State tax withheld	17 State/Payer's state	no.	18 State income	
			\$			\$	
			\$			\$	
Form 1099-MISC (Rev. 1-2024)	(keep for your re	cords)	www.irs.gov/Form1099MISC	Department of the T	reasury -	Internal Revenue Service	

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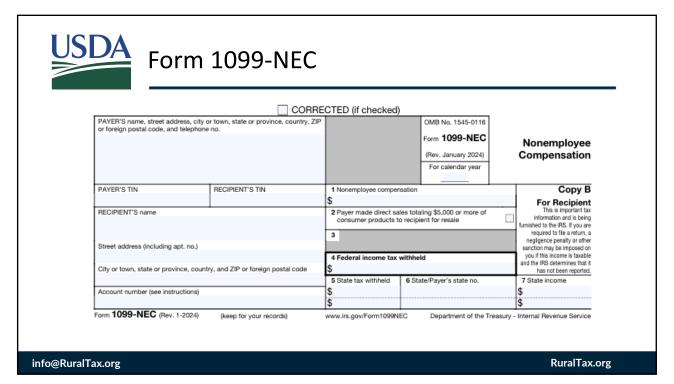
Form 1099-MISC

- Box 1 Rents
 - Cash rent (not share rental arrangements)
 - · Working easement
 - Damage payments
- Box 2 Royalties
 - · Oil and gas
 - Wind or solar energy
- Box 3 Other income payments
- Box 9 Crop insurance

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11





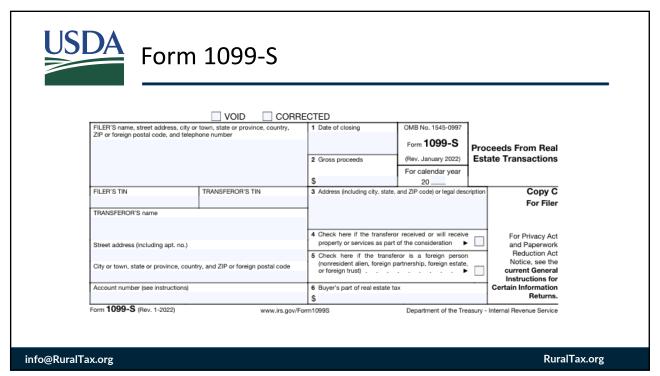
Form 1099-NEC

- Box 1 Nonemployee Compensation
 - Contract labor
 - Machine hire (custom work)
- Box 2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale
 - This is most often Schedule C (Non-Farm Business items)

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13





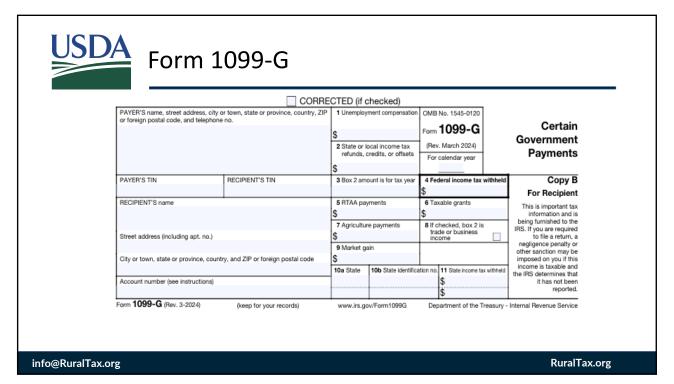
Form 1099-S

- Box 2 Gross proceeds
 - · Sale of real estate
 - Sale of a permanent easement
 - Sale of timber

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15





Form 1099-G

- Box 1 Unemployment compensation
- Box 2 State or local income tax refunds, credits, or offsets
- Box 4 Income tax withheld
- Box 6 Taxable grants (sometimes in error)
- Box 7 Agriculture payments
- Box 8 If checked, Box 2 is trade or business income
- Box 9 Market gain

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17



Why It Is Important to Correctly Report

The recipient (payee) could have one of the following results:

- 1. Not paying SE Tax when the recipient should
- 2. Paying SE Tax when the recipient should not
- 3. Receiving a letter from the IRS seeking to determine if the payment was reported on the tax return
- 4. Receiving a letter from the IRS seeking to determine where the payment was reported on the tax return

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- The following information and examples are designed to help your tax preparer correctly include payments in the tax return that are incorrectly reported to the recipient on Form 1099
- •This material is available for you to download and/or print
- Be sure to provide your tax preparer with a copy of every contract and/or agreement to help with correct reporting and for audit defense if needed

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19



Correcting Form 1099 errors

- The taxpayer with a temporary oil and gas easement should receive Form 1099-MISC, Miscellaneous Information, with the proceeds reported in box 1, and typically reports the payment on Schedule E (Form 1040)
- The taxpayer with a sale of a permanent oil and gas easement should receive Form 1099-S, Proceeds From Real Estate Transactions, with the proceeds reported in box 2

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USDA Fo	orm 1099	9-MIS		CTED (if checked)			
	PAYER'S name, street address, city of			1 Rents	OMB No. 1545-0115		
	or foreign postal code, and telephone	no.			Form 1099-MISC	Miscellaneous	
				\$ 2 Royalties	(Rev. January 2024)	Information	
					For calendar year	mormation	
				\$			
				3 Other income	4 Federal income tax withh	eld Copy B For Recipient	
	PAYER'S TIN	RECIPIENT'S TIN		5 Fishing boat proceeds	6 Medical and health care	For Recipient	
					payments		
				s	s		
	RECIPIENT'S name			7 Payer made direct sales	8 Substitute payments in Ii	This is imposts the	
				totaling \$5,000 or more of consumer products to	of dividends or interest	This is important tax information and is	
	Street address (including apt. no.)			9 Crop insurance proceeds	\$ 10 Gross proceeds paid to a	being furnished to the IRS. If you are	1
	,				attorney	required to file a return, a negligence	
		and Tip and and	-1-1	\$	\$	penalty or other sanction may be	
	City or town, state or province, count	ry, and ZIP or foreign pos	stai code	11 Fish purchased for resale	12 Section 409A deferrals	imposed on you if	
				\$	\$	this income is taxable and the IRS	
			13 FATCA filing requirement	14 Excess golden parachute payments	15 Nonqualified deferred compensation	determines that it has not been	
				s	\$	reported.	
	Account number (see instructions)			16 State tax withheld	17 State/Payer's state no.	18 State income	•
				\$		S	
	Form 1099-MISC (Rev. 1-2024)	(keep for your rec	cords)	www.irs.gov/Form1099MISC	Department of the Tress	ry - Internal Revenue Service	
		week in your rec	oo.daj	a.gov/ronniossMiSC	Doparatient of the freast	ryamai nevenue service	
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USD	Form	1099-S			
		□ VOID □ CORR	ECTED		
	ILER'S name, street address, city or		1 Date of closing	OMB No. 1545-0997	
	IP or foreign postal code, and teleph	one number		Form 1099-S	Proceeds From Real
			2 Gross proceeds	(Rev. January 2022)	Estate Transactions
			s	For calendar year	
F	ILER'S TIN	TRANSFEROR'S TIN	3 Address (including city, state.	and ZIP code) or legal desc	ription Copy C
				, , , , , , ,	For Filer
TI	'RANSFEROR'S name				
			4 Check here if the transfero		TOI FIIVACY ACL
s	Street address (including apt. no.)		property or services as part		and Paperwork Reduction Act
c	City or town, state or province, countr	y, and ZIP or foreign postal code	5 Check here if the transfe (nonresident alien, foreign p or foreign trust)	artnership, foreign estate,	Notice on the
A	account number (see instructions)		6 Buyer's part of real estate to	ıx	Certain Information
			\$		Returns.
For	rm 1099-S (Rev. 1-2022)	www.irs.gov/F	orm1099S	Department of the Tres	asury - Internal Revenue Service
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- Oil and gas companies may issue Form 1099 with the correct amounts
 - but either on the wrong Form 1099, or
 - in the wrong box of the correct Form 1099
- When this occurs, the IRS instructs the recipient to contact the payor and request a corrected Form 1099
- Payor may not respond and correct the error
- Now what?

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23



Correcting Form 1099 errors

- Payee must include the reported amount in the tax return in accordance with the issued Form 1099, so the payment is properly matched from the 1099 to the recipient's tax return
- Then payee will make an adjusting entry in the tax return, and
- Place the amount on the correct form or schedule in the tax return for correct reporting of the amounts paid
- The payee may want to included documentation such as the easement contract, custom work agreement, etc. for proof for the reporting on the tax return

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Improper Form 1099 for Easement Payment

- Jose received a pipeline easement on land he has owned for 10 years
- The easement was 50 foot permanent and 50 foot temporary
- He should receive a Form 1099-MISC reporting \$35,000 for the temporary easement, and
- He should also receive a Form 1099-S reporting \$35,000 for the permanent easement
- Actually, he received a Form 1099-MISC reporting \$70,000 in box 1 (rents)
- Jose contacts the company reporting the error but nothing is corrected

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25



Correcting Form 1099 errors

Improper Form 1099 for Easement Payment (cont.)

- Proper reporting the payment requires Jose to:
- 1. Report the \$70,000 on Schedule E (Form 1040), line 3
- 2. Report \$35,000 as an expense on line 19 of Schedule E

(Form 1040) (From rental real estate, royalties, partner				0-SR, 1040-NR, or 10	OMB No. 1545-0074 2024 Attachment Sequence No. 13		
Name(s) short	wn on return				Your soci	al security number	
Income:				Α	В		С
3	Rents received						
4	4 Royalties received						
18	Depreciation	on expense or depletion	18				
19	Other (list)		19				
20	Total eyne	nses Add lines 5 through 19	20				

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Improper Form 1099 for Easement Payment (cont.)

- Proper reporting the payment requires Jose to:
- 1. Report \$35,000 for the permanent easement on Form 4797, line 2
- 2. He will then need to adjust the basis in the affected property



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27



Correcting Form 1099 errors

Improper Box, Form 1099 for Damage Payment

- A drilling pad was constructed on Gunther's land
- He was paid \$25,000 for damage to his corn crop
- He received a 1099-MISC reporting the \$25,000 in box 1 (rents)
- The payment should have been reported in box 3 (other income)
- He contacts the company reporting the error, but nothing is corrected

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Improper Box, 1099-MISC for Damage Payment (cont.)

- Proper reporting the payment requires Gunther to:
- 1. Report the \$25,000 on Schedule E (Form 1040), line 3
- 2. Report \$25,000 as an expense on line 19 of Schedule E

Department of the Treasury Internal Revenue Service Name(s) shown on return Attach to Form 1040, 1040-SR, 1040-NR, or 1041. Attachment Sequence No. 1 A B C A Rovalties received	SCHEDU (Form 10-		Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)						0074 1
Income:									
3 Rents received	Name(s) sho	Name(s) shown on return Your social							
			ved	3	Α	В		С	
18 Depreciation expense or depletion 18	4	Rovalties re	ceived	4					
	18	Depreciation	n expense or depletion	18					
19 Other (list) 19	19	Other (list)		19					
20 Total expenses Add lines 5 through 19 20	20	Total expen	ses Add lines 5 through 19	20					

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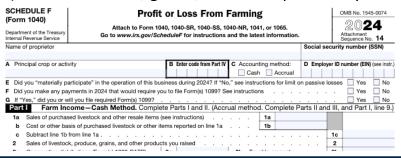
29



Correcting Form 1099 errors

Improper Box, 1099-MISC for Damage Payment (cont.)

- Proper reporting the payment requires Gunther to:
- 1. Report \$25,000 for the crop damage on Schedule F (Form 1040), line 2 (sales of livestock, grains, and other products you raised)



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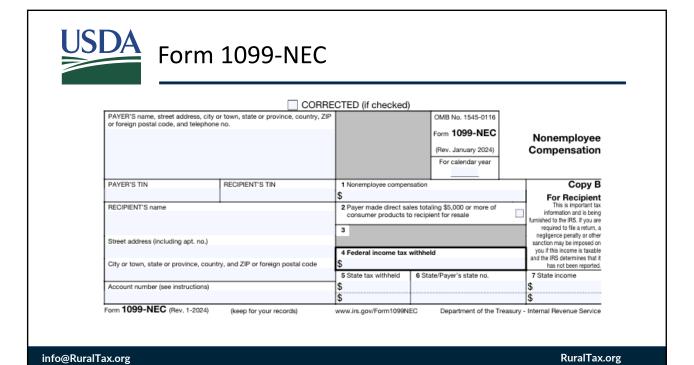
Improper Reporting on Form 1099-NEC

- Lisa hires Joe and John to pour a concrete floor in her barn
- She pays each of them \$1,000 for the work
- Lisa reports the total of \$2,000 on Joe's 1099 NEC
- Joe reports the error to Lisa
- Lisa corrects the problem by providing each (Joe and John) a 1099-NEC with the corrected box checked on Joe's form

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31





Form 1099-G (USDA-FSA oops!)

- EQIP Payments were reported in Box 6 Taxable grants
- Should have been reported in Box 7 Agriculture payments
- The issue:
 - Tax software will put the amount on Schedule 1 of the 1040 which is incorrect
 - · Amount should be reported on Lines 4a and 4b of Schedule F
 - To avoid a letter from IRS concerning the reporting of the payment will require a correcting entry in the tax return
 - Reverse the entry on Schedule 1 and report the amount on Schedule F, Lines 4a and 4b

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33



Form 1099-G

	☐ CORRE	CTED (if o	checked)				
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.			ment compensation	OMB No. 1545-0120		Certain	
		\$		Form 1099-G		Government	
		2 State or local income tax refunds, credits, or offsets		(Rev. March 2024) For calendar year		Payments	
		\$					
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year		4 Federal income tax	withheld	Copy B	
				\$		For Recipient	
RECIPIENT'S name		5 RTAA payments		6 Taxable grants		This is important tax information and is being furnished to the IRS. If you are required	
Street address (including apt. no.)		\$		\$			
		7 Agriculture payments		8 If checked, box 2 is			
		\$		trade or business income		to file a return, a	
		9 Market gain				negligence penalty or other sanction may be	
City or town, state or province, country, and ZIP or foreign postal code		\$				imposed on you if this	
		10a State 10b State identific		ation no. 11 State income tax withheld		income is taxable and the IRS determines that	
Account number (see instructions)		\$ \$		\$		it has not been	
	\$				reported.		
Form 1099-G (Rev. 3-2024)	(keep for your records)	www.irs.go	v/Form1099G	Department of the T	reasury -	Internal Revenue Service	

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Form 1099-G (USDA-FSA oops!)

- EQIP Payments were reported in Box 6 Taxable grants
 - Tax software will put the amount on Schedule 1 Part I, Line 8z (other income) of the Form 1040 which is incorrect

SCHEDULE 1 (Form 1040) Department of the Treasury Internal Revenue Service	e	OMB No. 1545-0074 2024 Attachment Sequence No. 01						
Name(s) shown on Form	Name(s) shown on Form 1040, 1040-SR, or 1040-NR Your social security number							
For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss								
Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.								
Part I Addition	nal Income							

 Remove the entry by entering the amount on Schedule 1 Part II, Line 24z (other adjustments) and then report the amount on Schedule F (see following slide)

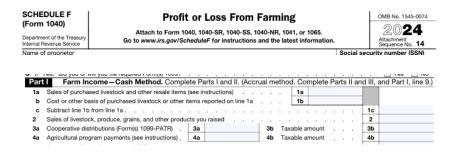
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35



Form 1099-G (USDA-FSA oops!)

- EQIP Payments were reported in Box 6 Taxable grants
 - Amount should be reported on Lines 4a and 4b, (Agriculture program payments) of Schedule F



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Conclusion

- Hopefully, this information clarifies the proper reporting for these 1099 forms
- Be sure to check the accuracy of the Form 1099s when received to make sure they are correct
- If they contain errors, be sure to seek corrected forms as quickly as possible
- Work closely with your tax advisor to make sure all items are accurately reported
- Do not expect the tax software to correctly report the payments on the tax return

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37

References

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"Form 1099 Information Returns" (RTE 2024-23)

IRS.gov

Publication 225, Farmer's Tax Guide Instructions for Forms 1099-MISC and 1099-NEC Instructions for Form 1099-S Instructions for Form 1099-G

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Thank you for Attending!!

What questions might you have?

For any follow-up questions, please contact me at:

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