

**SUPPORTING STATEMENT**  
Nonemployee Compensation  
(Form 1099-NEC)  
OMB Control No. **1545-0116**

**1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION**

Section 6041 of the Internal revenue Code requires an information return to be filed for payments of \$600 or more in rents, prizes, and awards (but not for services rendered), medical payments by health insurers, nonemployee compensation and crop insurance proceeds and any amount of fishing boat proceeds, \$10 or more of royalties, certain substitute payments, golden parachute payments, and an indication of direct sales of \$5,000 or more. Form 1099-MISC has been used since 1982 to report all these payments, as well as any federal income tax withholding under the backup withholding rules regardless of the amount of the payment.

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) (P.L. 114-113, Sec. 201) accelerated the due date for reporting nonemployee compensation (NEC) and eliminated the automatic 30-day extension for forms that include NEC. The IRS revised Form 1099-MISC in the 2020 tax year to accommodate the creation of Form 1099-NEC. The redesigned 1099-MISC has different box numbers for reporting [certain income](#).

Form 1099-NEC is a form for nonemployee compensation of \$600 or more to a payee. This form should be filed with the IRS, on paper or electronically, and sent to recipients.

There is no automatic 30-day extension to file Form 1099-NEC. However, an extension to file may be available under certain hardship conditions. Also, nonemployee compensation may be subject to backup withholding if a payee has not provided a taxpayer identification number to the payer, or the IRS notifies the payer that the Taxpayer Identification Number provided was incorrect.

**2. USE OF DATA**

The information collected on Form 1099-NEC will be used to verify compliance with the reporting rules and to verify that the recipient has included the proper amount of nonemployee compensation on his or her income tax return. This information collection tool will aid taxpayers in meeting their tax obligations per IRC section 6041 while reducing the burden of separating forms 1099 that include nonemployee compensation from those that do not include nonemployee compensation.

**3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN**

Form 1099-NEC can be filed electronically. It is expected that approximately 90% of the information will be collected electronically.

**4. EFFORTS TO IDENTIFY DUPLICATION**

The information to be obtained through this collection is unique and is not already available for use or adaptation from another source. Taxpayers will no longer be required to report nonemployee compensation on Form 1099-MISC.

**5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES**

There is no flexibility to reduce burden on small businesses or other small entities because the statutes apply to small businesses and small entities.

**6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES**

Form 1099-NEC, *Nonemployee Compensation*, reflects the annual reporting of income required per IRC 6041. If reported less frequently, the agency could not verify compliance with the reporting rules, nor verify that the recipient has included the proper amount of nonemployee compensation on his or her income tax return.

**7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)**

There are no special circumstances requiring data collection to be inconsistent with guidelines in 5 CFR 1320.5(d)(2).

**8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS**

Periodic meetings are held between IRS personnel and representatives of the American Bar Association, the National Society of Public Accountants, the American Institute of Certified Public Accountants, and other professional groups to discuss tax law and tax forms. During these meetings, there is an opportunity for those attending to make comments regarding Form 1099-NEC.

In response to the Federal Register notice dated September 25, 2023, (88 FR 65773). We received one comment letter, requesting a copy of the Form 1099-NEC, during the comment period. A prompt response was provided with a link to view the most updated draft available for this form.

**9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS**

No payments or gift will be provided to any respondents.

**10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES**

Generally, tax returns and tax return information are confidential as required by 26 USC 6103.

**11. JUSTIFICATION OF SENSITIVE QUESTIONS**

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the "Filing Information Returns Electronically (Fire)" system and a Privacy Act System of Records notices (SORN) has been issued for these systems under Treas./IRS 24.030-

Customer Account Data Engine Individual Master File; and Treas./IRS 34.037–IRS Audit Trail and Security Records System. The Internal Revenue Service PIAs can be found at: <https://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>. or at: <https://www.irs.gov/pub/irs-pia/fire-pia.pdf>.

Title 26 USC 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

**12. ESTIMATED BURDEN OF INFORMATION COLLECTION**

Section 6041 requires that an information return be filed for payments of at least \$600 made during a trade or business for services performed by someone who is not an employee, cash payments for fish and withholding of federal income tax under the backup withholding rules.

It is estimated that there will be 88,125,500 respondents with a response time of 15 minutes totaling 22,912,630 burden hours.

The burden estimate is as follows:

<u>Form</u>	<u>Number of Respondents</u>	<u>Responses per Respondent</u>	<u>Annual Responses</u>	<u>Hours per Response</u>	<u>Total Burden</u>
Form 1099-NEC	88,125,500	1	88,125,500	15 min.	22,912,630
Totals	88,125,500	1	88,125,500	15 min.	22,912,630

**13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS**

From our Federal Register notice dated September 25, 2023, no public comments were received on the estimates of cost burden that are not captured in the estimates of burden hours, i.e., estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

This information collection will be included in the consolidated OMB submission for information returns currently being developed. IRS is working on the methodology for evaluating information return burden and cost; and will update the cost and burden estimates as part of the consolidation.

**14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT**

The Federal government cost estimate is based on a model that considers the following three cost factors for each information product: aggregate labor costs for development, including annualized startup expenses, operating and maintenance expenses, and distribution of the product that collects the information.

The government computes cost using a multi-step process. First, the government creates a weighted factor for the level of effort to create each information collection product based on variables such as complexity, number of pages, type of product and frequency of revision. Second, the total costs associated with developing the product such as labor cost, and operating expenses associated with the downstream impact such as support functions, are added together to obtain the aggregated total cost. Then, the aggregated total cost and factor are multiplied together to obtain the aggregated cost per product. Lastly, the aggregated cost per product is added to the cost of shipping and printing each product to IRS offices, National Distribution Center, libraries, and other outlets. The result is the Government cost estimate per product.

The government cost estimate for this collection is summarized in the table below.

<b>Product</b>	<b>Aggregate Cost per Product (factor applied)</b>	<b>Printing and Distribution</b>	<b>Government Cost Estimate per Product</b>
Form 1099-NEC	\$28,928	\$0	\$28,928
Instructions (Form 1099-NEC)	\$9,643	\$0	\$9,643
<b>Total</b>	<b>038,571</b>	<b>0</b>	<b>0</b>

Table costs are based on 2024 actuals obtained from IRS Chief Financial Office and Media and Publications

## 15. REASONS FOR CHANGE IN BURDEN

In response to the Federal Register notice dated April 29, 2022 (87 FR 25568), Internal Revenue Service (IRS) received one comment regarding Form 1099-MISC.

The American Payroll Association (APA) provided the following suggestions/explanations:

- Move Box 14 (excess golden parachute payments) on Form 1099-MISC to Form 1099-NEC; American Payroll Association – Comments on Forms 1099-MISC and 1099-NEC.

Changes made because of APA comments received 06/24/2022 will result in a burden increase of 3,525,020 hours. Updated estimates based on 2023 Pub 6961 will result in burden decrease of 2,866,270 hours.

	<b>Requested</b>	<b>Program Change Due to New Statute</b>	<b>Program Change Due to Agency Discretion</b>	<b>Change Due to Adjustment in Agency Estimate</b>	<b>Change Due to Potential Violation of the PRA</b>	<b>Previously Approved</b>
Annual Number of Responses	88,125,500	0	0	-13,028,500	0	101,154,000
Annual Time Burden (hours)	22,912,630	0	3,525,020	-2,866,270	0	22,253,880

## 16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis, and publication.

## **17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE**

We believe that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the regulation sunsets as of the expiration date. Taxpayers are not likely be aware that the IRS intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

## **18. EXCEPTIONS TO THE CERTIFICATION STATEMENT**

There are no exceptions to the certification statement.

**Note:** The following paragraph applies to all the collections of information in this submission:

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained if their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.