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New 1099 reporting requirements for rental property owners beginning in 2011

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Dear Client:

All rental property owners need to be aware of the new 1099 reporting requirements effective for the 2011 tax year. Beginning with payments made after Dec. 31, 2010, with certain exceptions, taxpayers receiving income from rental real estate are subject to the same information reporting requirements as taxpayers in other trades or businesses. That is, if an owner of rental property makes a payment of at least \$600 to a service provider (such as a plumber, electrician, accountant, etc.) during the tax year, the owner must file an information return with IRS and with the service provider. Typically, the payments will be reported on Form 1099-MISC.

Certain taxpayers are exempt from this information reporting. However, since exceptions 1 and 3 are not yet defined, we recommend that you gather the information during the tax year so you will be prepared to file the forms if necessary. You will not have to report payments to service providers if you fit within one of the following categories:

1. An individual who receives rental income of no more than the "minimal amount" This amount has not yet been defined and is to be determined under IRS regs.
2. An individual who receives substantially all rental income from renting his principal residence on a temporary basis; This category includes active members of the uniformed services and employees of the intelligence community.
3. Any other individual for whom the information reporting requirements would cause hardship; The hardship exceptions have also not been defined.

Note that the exceptions refer to individual taxpayers. Presumably, therefore, if you own rental real estate as a corporation, partnership, trust, estate or other entity, that entity will be subject to the information reporting rules even if one of the above conditions is met. In addition, many of the terms used are not defined and will need to be clarified by IRS guidance.

We recommend that you obtain a W-9 from all the contractors and service providers that you pay over \$600 for services related to your rental property. If you own the property

individually and do not want your social security number showing in the payer box of Form 1099-MISC, you should discuss with your attorney some alternatives for ownership under a separate tax identification number.

Please keep in mind that this is only an overview of the new rental real estate information reporting rules. If you would like further information, please contact us at your earliest convenience.

Sincerely,

Sechrest & Bloom, LLC