

TO: Business and Corporate Clients
DATE: September 26, 2000
SUBJECT: Important NEW Tax Reporting Requirement

Beginning January 1, 2001, California law requires business owners - like you - to report individuals who perform services on your behalf to the state's Independent Contractor Registry. The rules are somewhat complicated, and there are penalties for failing to comply. The following explanation should help you understand what you must do to be in compliance.

Why The New Requirement

This law was enacted to assist the state in collecting delinquent child support.

Who Must Be Reported

You must report *individuals* who are independent contractors and are subject to federal Form 1099 reporting requirements. These are individuals who provide services for your business and you have paid or will pay \$600 or more. You do not have to report corporations, partnerships, limited liability companies, or limited liability partnerships.

How And When To Report

You must report service providers within 20 days of the earlier of:

- 1) Making payments of \$600 or more; or
- 2) Entering into a contract for \$600 or more in any calendar year

You report the individual's name, address, and taxpayer ID number to the EDD using Form DE 542, Report of Independent Contractors (see the attached sample form, which has not been finalized). If you fail the reporting requirements, the EDD may assess you a penalty of \$24 per failure. If you and the independent contractor agree not to report the payments in an effort to circumvent the requirement, the penalty is \$490.

We Can Help

As with all your tax matters, we are available to assist you in complying with this new law. We will be happy to file reports for you or help you put a system in place to simplify this new requirement. Please call us if you have any questions.

Sincerely,

ZDONEK & WOLOWICZ ACCOUNTANCY CORPORATION