

Daily Operations Section  
State Accounting Bureau



# 1099 Reporting:

## Part 3 - Reporting Classifications



# Reporting Classifications

Box	Reportable
MISC-1	Rents & Surface Royalties
MISC-2	Royalties (intellectual property)
MISC-3	Other Income
MISC-4	Federal Income Tax Withholding/Backup Withholding*
MISC-6	Medical and Health Care Payments
MISC-10	Gross Proceeds Paid to an Attorney
NEC-1	Nonemployee Compensation

\*The State of Montana rarely, if ever, uses this box



# Reporting Classifications

Box	Reportable
G-2	State Income Tax Refund/Credit
G-6	Taxable Grants
MISC-5	Misc. Fishing Boat Proceeds
MISC-8	Misc. Substitute Payments
MISC-9	Misc. Crop Insurance Proceeds
MISC-14	Misc. Excess Golden Parachute
NEC-4	NEC Federal Income Tax Withheld

The State of Montana rarely uses these boxes. If you think you may need to, please contact us.



# Reporting Classifications

## 1099-MISC Box 1: Rental Payments & Surface Royalties

- Examples include land, buildings, offices, conference rooms, equipment, rental assistance payments to property owners
- Operating lease – considered as “rent” by IRS the rental is generally returned to lessor at end of lease
- Capital lease – considered as “purchase of goods” by IRS the rental is generally owned by lessee at the end of lease
- If capital lease payments include interest, the interest portion of the payment should be reported on form 1099-INT if more than \$600 paid to a reportable entity
- Easements – more than 30 years is reported on 1099-S and less than 30 years on 1099-MISC
- MOM Policy 335 – Capital Assets defines operating vs. capital lease

**1099-MISC issued if total is greater than \$600**



# Reporting Classifications

## 1099-MISC Box 2: Gross Royalty Payments

- Intellectual property such as literary rights, copyrights, motion picture, publishing, licensing fees, mineral rights

## Royalties not recorded in Box 2

- Surface royalties (i.e., payments for the right to strip mine property owned by another) are reported in Box 1 as rent
- Oil or gas payments for a working interest are reported in Box 1 of the 1099-NEC as non-employee compensation
- Timber royalties made under a pay-as-cut contract are reported on the form 1099-S
- Proceeds from real estate transactions

1099-MISC issued if total is greater than \$10



# Reporting Classifications

## 1099-MISC Box 3: Other Income

- Items not specifically reportable in other boxes
- Reportable legal damages; punitive, non-physical injury, discrimination/defamation
- Fair market value of awards/prizes not for services performed

## Other income not recorded in Box 3

- Legal damages received due to personal physical injury or physical sickness; damages that do not exceed the amount paid for medical care for emotional distress
- Property claims

**1099-MISC issued if total is greater than \$600**



# Reporting Classifications

1099-MISC Box 4 –  
Backup Withholding

Any amount of federal  
income tax that has  
been withheld from  
payments during the  
year

Very rare due to state's  
internal processes

**1099-MISC issued if total is greater than \$0**



# Reporting Classifications

## 1099-MISC Box 6 – Medical or Health Care Services

- Doctors/dentists
- Counselors
- Home health care workers
- Clinics/hospitals/nursing homes
- Medical billing services
- Corporate exemptions does not apply

Medical or health care services not recorded in Box 6

- Health insurance premiums
- Prescription drugs
- Medical goods that are separate from services
- For “pure” scientific research without providing any illness treatment

**1099-MISC issued if total is greater than \$600**



# Reporting Classifications

1

1099-MISC Box 10 –  
Attorney Gross  
Proceeds

- No corporate exemption
- Includes amount paid for fees, if cannot be separated from settlement
- If payment is jointly payable to attorney and client, report full amount to attorney in Box 10

2

Reportable

- Defamation
- Discrimination
- Emotional injuries not arising from physical injuries

3

Non-reportable

- Payments for damages received due to personal physical injury or physical sickness
- Property claims

**1099-MISC issued if total is greater than \$600**



# Reporting Classifications

If attorney's/law firm's name is on the check, report the total amount of the check in Box 10

If the legal damages payment to the claimant is taxable, you must also report this amount to the claimant in Box 3 – even if the claimant's name is not on the check (because of the assignment of income doctrine)

This means you may be issuing two (or more) Form 1099-MISCs for a single check

For example, one to the attorney, reporting the amount in Box 10, and one to the claimant, reporting the amount in Box 3

Must manually add the second total in the Adjust Withholding screen in SABHRS



# Reporting Classifications

1099-NEC Box 1 – Did the attorney/law firm perform services for your company/organization?

- If yes, report the amount in box 1 of the 1099-NEC
- No corporate exemption

1099-MISC Box 10 – Did the attorney/law firm perform services for your company/organization?

- If no, and the attorney's name is on the check, report the gross amount of the check in Box 10 of 1099-MISC
- No corporate exemption

1099-MISC Box 3 – Legal damages to claimant, report if taxable

- Punitive damages are always taxable and reportable
- Reported in Box 3 of the 1099-MISC

**At times, more than one 1099 is required**



# Reporting Classifications

## 1099-NEC Box 1 – Nonemployee Compensation

- Payments for services to nonemployees
- Standard payee exemptions apply (Corps, tax-exempts, govt. payees), except no corporate exemption for legal services payments

## Examples

- Commissions
- Prizes
- Awards
- Honorariums
- Payments for a working interest

**1099-NEC issued if total is greater than \$600**



# THANK YOU!

Thank you for watching!

Questions? Please open a Case – SAB in ServiceNow  
or call 406-444-3092