

# 1099 Reporting:

## Part 4 – Reporting Classifications





# Reporting Classifications

Box	Reportable
MISC-1	Rents
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	Substitute Payments in Lieu of Dividends or Interest
MISC-9	Crop Insurance Proceeds
MISC-14	Excess Golden Parachute
NEC-4	NEC Federal Income Tax Withheld



# Reporting Classifications

## 1099-MISC Box 1: Rental Payments

- Examples include land, buildings, offices, conference rooms, equipment, rental assistance payments to property owners, surface royalties
- Leases – considered as “rent” by the IRS as the rental is generally returned to lessor at end of lease
- Finance Purchases – considered as “purchase of goods” by the IRS as the rental is generally owned by lessee at the end of lease
- Easements – if fewer than 30 years remain, report as rent. If 30 years or more remain, report on the 1099-S.



# Reporting Classifications

## 1099-MISC Box 2: Gross Royalty Payments

- Intellectual property such as literary rights, copyrights, trademarks, patents, motion picture, publishing, licensing fees, mineral rights
- You are purchasing the right to use something that belongs to someone else

## 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
- Working oil or gas interests are reported in Box 1 of the 1099-NEC as non-employee compensation
- Timber royalties made under a pay-as-cut contract and proceeds from real estate transactions are reported on the 1099-S



# 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 prizes/awards not in exchange for services performed
  - If awarded in exchange for services, report in Box 1 of Form 1099-NEC

## Other income not recorded in Box 3

- Legal damages to compensate for personal physical injury or sickness – not taxable/reportable
- Property claims



# Reporting Classifications

1099-MISC Box 6 –  
Medical or Health Care  
Services

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

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



# 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





# 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

- Consultants
- Training
- Office cleaning
- Prizes/awards
- Honorariums in exchange for services
  - Note: Honorarium amounts have changed from \$50/day to \$100/day ([MCA 2-15-122](#))



# Reporting Classifications

## 1099-NEC Box 1 & Non-Employee Travel

- Reportable Non-employee Travel
  - Non-overnight meals
  - No-receipt lodging
  - Reimbursements for personal equipment usage
  - <https://www.irs.gov/pub/irs-pdf/p5137.pdf> page 32
  - [MCA 2-18-501](#)



# Reporting Classifications

## 1099-NEC Box 1 & Non-Employee Travel

- Non-reportable Non-Employee Travel
  - Overnight meals
  - Lodging reimbursement at actual cost with a receipt provided
  - Mileage
  - Any other personal reimbursement with a receipt provided
  - <https://www.irs.gov/pub/irs-pdf/p5137.pdf> page 32
  - [MCA 2-18-501](#)



# Reporting Classifications

## 1099-G Box 6 – Taxable Grants

- Corporate exemptions apply
- Grants not based on individual need
  - Examples:
    - Cash grants paid to long-time residents who meet age and residency requirements
    - Local government grants to resident homeowners for installing solar panels
- Grants predicated on the individual/organization providing services reportable on 1099-NEC box 1

## Grants not recorded in Box 6

- General Welfare Exclusion
  - Grant must be made pursuant to a governmental program, and
  - Be for the promotion of the general welfare (based on need), and
  - Not represent compensation for services
- Disaster Relief Payment Exclusion
  - IRS code provides that disaster relief grants are excluded from gross income and are therefore nonreportable



# THANK YOU!

Thank you for watching!

Questions? Please [Open a Case – SAB](#) in ServiceNow or call  
406-444-3092