

Daily Operations Section
State Accounting Bureau

1099 Reporting:

Part 3 - Reporting Classifications





Reporting Classifications

Box	Reportable	Non-Reportable
MISC-1	Land, buildings, offices, conference rooms, equipment, rental assistance payments to property owners, surface royalties	Capital lease payments for interest reported on 1099-INT, payments for storage
MISC-2	Intellectual property	
MISC-3	Services performed in course of business: punitive damages, non-physical injury, discrimination/defamation, prizes/awards, honorariums, medical research	Personal injury damages, physical sickness, property claims
MISC-4	Any amount of money withheld from payment during the year*	
MISC-6	Doctors, dentists, counselors, assisted living workers, clinics, hospitals, nursing homes, medical billing	Health insurance premiums, prescription drugs, medical goods separate from services, scientific research without illness treatment
MISC-10	Proceeds paid to attorneys, fees, payment jointly payable to attorney and client	Personal injury damages, physical sickness, property claims
NEC-1	Bonuses, commissions, professional services, expert witness fees, legal fees to attorneys, purchases of fish for resale, repairs	Employee wages

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



Reporting Classifications

1099-MISC Box 1 – Rental Payments

- 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

- Examples include copyrighted items: photographs, novels/textbooks, performing a symphony or piece of music, or the use of music in a commercial endeavor
- Generally, payments for use of intellectual property

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
- Honorariums

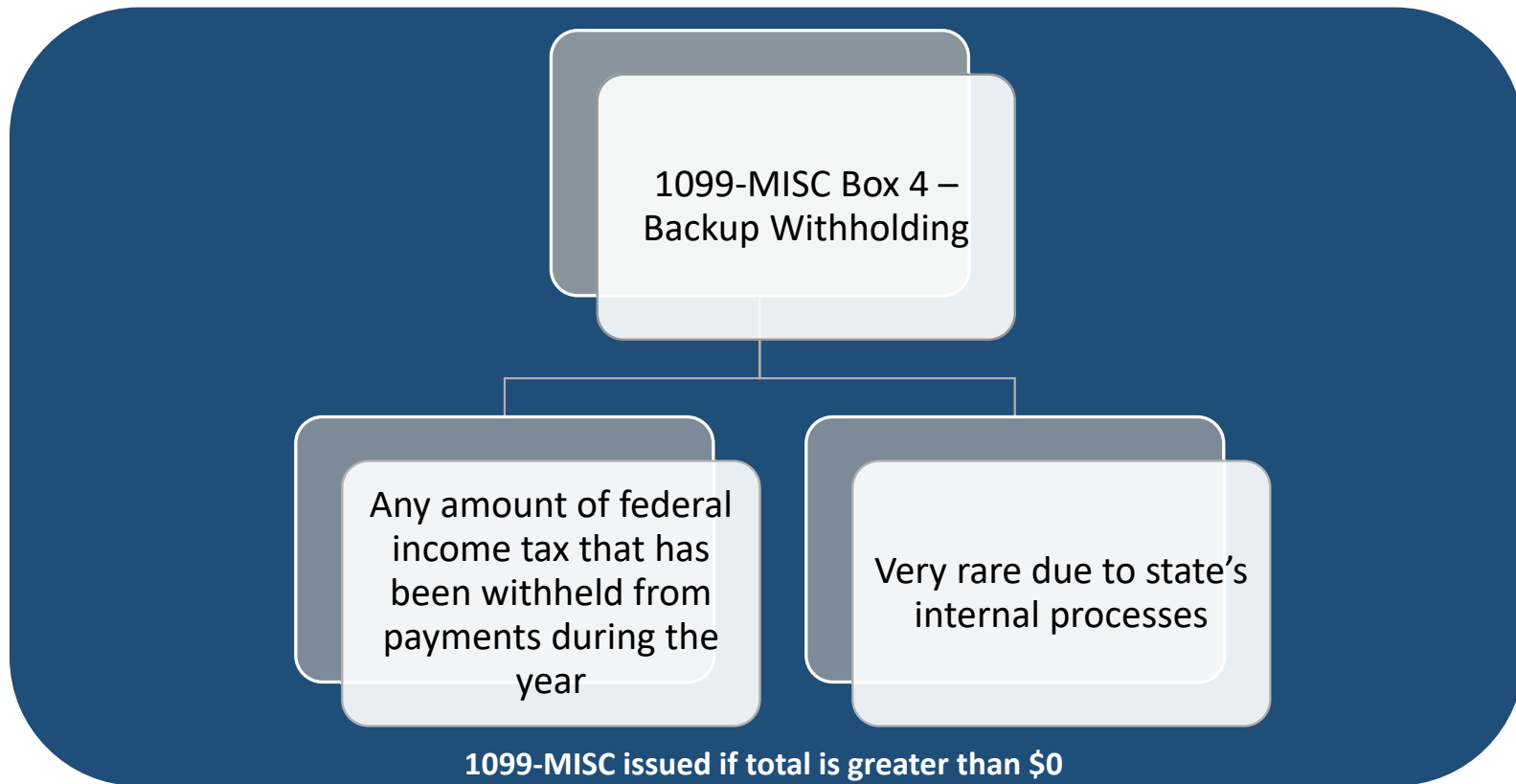
Other income not recorded in Box 3

- 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





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

- Attorneys/law firms providing legal services to your organization (no corporate exemption)
- Office cleaning
- Plant care
- Landscaping
- Independent contractors
- Consultants
- Training
- Printers and publishers
- Transportation
- Security services
- Translators and interpreters
- Auto repair

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



THANK YOU!

Thank you for watching!

Questions? Please submit an [Other Accounting/SABHRS Questions](#) request in ServiceNow or call 406-444-3092