1099 Reporting:
Part 3 - Reporting Classifications
# Reporting Classifications

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

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

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
1099-MISC issued if total is greater than $600

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

<table>
<thead>
<tr>
<th>1099-NEC Box 1 – Did the attorney/law firm perform services for your company/organization?</th>
<th>1099-MISC Box 10 – Did the attorney/law firm perform services for your company/organization?</th>
<th>1099-MISC Box 3 – Legal damages to claimant, report if taxable</th>
</tr>
</thead>
</table>
| • If yes, report the amount in box 1 of the 1099-NEC  
• No corporate exemption | • 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 | • Punitive damages are always taxable and reportable  
• Reported in Box 3 of the 1099-MISC |

At times, more than one 1099 is required

DAILY OPERATIONS SECTION | STATE ACCOUNTING BUREAU (SAB)
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 for watching!

Questions? Please submit an Other Accounting/SABHRS Questions request in ServiceNow or call 406-444-3092