

What Is Form 1099-MISC?

You: “Alex, I’ll take IRS Forms for \$200.”

Mr. Trebek: “This IRS form is to be used to report any prize money from your stint on Jeopardy”

You: “What is Form 1099-MISC.”

If you’ve met up with the likes of an Alex Trebek or a Bob Barker, there’s a special IRS form for reporting your game show booty.

Form 1099-MISC is used to report taxable payments that are not wages, interest dividends, or proceeds from the sale of an asset. Some of the more common types of income reported on Form 1099-MISC are:

- Rents and royalties
- Taxable settlements from a lawsuit
- Prizes
- Wages paid to an estate in any year after an employee’s death
- Medical and health care payments made to physicians and other health service providers
- Non-employee compensation
- Crop insurance proceeds

All of these payments represent taxable income to the recipients, but how the income is reported depends on the type of income.

Box 7 Woes

Form 1099-MISC, Box 7 is supposed to be used for non-employee compensation only. Non-employee compensation means amounts paid to contractors, suppliers, service providers, and others who generally must report these payments as self-employment income.

Unfortunately, Form 1099-MISC, Box 7 tends to be a catch-all for any kind of payment that the

issuer is not sure what to do with. Here are some commonly misreported items:

- **Wages.** Many factors determine whether you are an employee or a contractor. Generally, if someone you work for has the right to determine your work hours and direct the way in which you perform your work, you are considered to be an employee.

An employer may report wages on Form 1099-MISC to avoid paying employment taxes or simply because he or she is unaware of the wage reporting rules. If you

receive Form 1099-MISC instead of a W-2, ask your employer to issue a corrected document. If your employer will not do so, you should still report the income as wages on your return.

You may pay in your share of employment taxes by filing Form 4137, Social Security and Medicare Tax on Unreported Tip Income. Cross out “tips” everywhere it appears on the form, and write in “wages.” At the top of the form, include your employer’s name, address, and employer identification number if you know it.

Note: If you wish, you may file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding. The IRS will review the facts and notify both you and your employer of its decision. The form and instructions are

available at www.irs.gov.

Employers sometimes report bonuses, commissions, awards and taxable fringe benefits on Form 1099-MISC. Because these amounts are from your employer, they are taxed as wages and should be reported on your W-2. Even if your employer will not issue a corrected document, you should report the income as wages.

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— Jackie Perlman,
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- **Chore payments.** Individuals who receive payments from an insurance company or state agency to care for a family member are not self-employed unless they are in the business of providing home care. Chore payments should be reported on Form 1040, line 21.
- **Other payments.** Other types of miscellaneous income, such as legal settlements and prizes, are often reported in Box 7 instead of Box 3, Other Income on Form 1099-MISC. Unless the payment relates to a trade or business, report these items on Form 1040, Line 21.

Important: Be sure to attach a statement to your return that tells the IRS on what line you've reported the income and explains why you are reporting the income differently from what's indicated on Form 1099-MISC. You might want to include copies of documentation with your return. Keep your original documentation for your records.

A Word about Self-Employment Tax. If you receive correspondence from the IRS requesting self-employment tax on the income, it doesn't mean that you must pay it. You should respond to the letter as soon as possible to restate why you believe the income is not subject to self-employment tax. A tax professional can assist you in writing the letter.