

Minnesota State Colleges and Universities 1099 Reporting Local Fund Payments

NEW in 2020: IRS form 1099-NEC, Nonemployee Compensation

The IRS introduced a new 1099 form in 2020, the 1099-NEC for reporting nonemployee compensation.

What type of payments are 1099 reportable?

In general, either a Form 1099 -MISC, Miscellaneous Income or 1099-NEC, Nonemployee Compensation, is filed for each person or business entity to whom we have paid the following during the calendar year:

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest.
- At least \$600 in:
 - Rents (1099-MISC box 1);
 - Prizes and awards (1099-MISC box 3);
 - Other income payments (1099-MISC box 3);
 - Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3);
 - Medical and health care payments (1099-MISC box 6);
 - Payments to an attorney (1099-MISC box 10)
 - Nonemployee compensation (1099-NEC box 1)
 - Payments coded to 1099 reportable object codes, regardless of amount, which were subjected to the 28% federal backup withholding tax.

In general, corporations and governmental entities are exempt from 1099 reporting, but partnerships, sole proprietors and individuals should receive a 1099 if the payments meet the above rules and are coded to a 1099 reportable object code. Note: payments for legal services, health and medical care, and gross proceeds to an attorney are 1099 reportable to corporations (see below).

To see which Minnesota State Colleges and Universities expense object codes are 1099 reportable, please go to the web based Minnesota State Admin Accounting Application. You will find Object Codes under the left hand menu item Chart of Accounts.

What type of payments and/or entities are exempt from 1099 reporting?

Some payments are not required to be reported on a 1099 form, although they may be taxable to the recipient. Payments for which a 1099 is not required include:

- Generally, payments to a corporation; exceptions include attorney fees, gross proceeds to attorneys and health and medical care payments.
- Payments for merchandise, telegrams, telephone, freight, storage, and similar items;
- Payments of rent to real estate agents
- Wages paid to employees (report on Form W-2, Wage and Tax Statement);
- Business travel allowances paid to employees (may be reportable on Form W-2);
- Cost of current life insurance protection (report on Form W-2 or Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.);
- Payments to a tax-exempt organization, the United States, a state, the District of Columbia, a U.S. possession, or a foreign government; and
- Certain payment card transactions if a payment card organization has assigned a merchant/payee a Merchant Category Code (MCC) indicating that reporting is not required. A cardholder/payor may rely on the MCC that the payment card organization assigned to a merchant/payee to determine if a payment card transaction with that merchant/payee is subject to reporting under section 6041 or section 6041A.

Common Errors in Recording Payments

In addition to reviewing the 1099 Preview Report each year, throughout the calendar year campuses should review all payments to ensure that any errors in coding are corrected prior to the year end. Some common errors:

- Coding reimbursements made under the Accountable Plan Rules to 1099 reportable object codes
- Coding a payment for services as a scholarship or stipend.
- Coding shipping or freight costs associated with the purchase of equipment, merchandise or supplies to a separate 1099 reportable object code
- Making a payment to an ISRS Person record instead of to a SWIFT vendor record.

Payments to Foreign Persons & Entities

Generally, payments coded to a 1099 object code and paid to a foreign entity are reported on IRS form 1042-S Foreign Person's U.S. Source Income Subject to

Withholding. Contact Tax Services for guidance when making payments to foreign entities.

- Payments to foreign persons or entities are generally subject to 30% withholding tax. Scholarships or fellowships paid to foreign students or scholars are subject to 30% withholding unless the student or scholar is eligible for a reduced withholding rate. Payments to foreign employees (student and state) are subject to a different set of taxation rules which subject the employee to a higher rate of withholding and in some cases an exemption from FICA/Medicare taxation.
- Prior to making a payment to any foreign entity, campuses are required to follow Minnesota State's nonresident alien procedures. For more information please go to the Tax Services web site at:

<https://www.minnstate.edu/system/finance/taxinformation/nonresident/index.html>