Instructions for Form 1099-MISC

Section references are to the Internal Revenue Code unless otherwise noted.

What’s New for 2002?
Backup withholding. Recent legislation reduced the backup withholding rate. The backup withholding rate will be 30% for reportable payments made in 2002 and 2003.

An Item To Note
In addition to these specific instructions, you should also use the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:
- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS Web Site at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-MISC
File Form 1099-MISC, Miscellaneous Income, for each person to whom you have paid (a) at least $10 in royalties or broker payments in lieu of dividends or tax-exempt interest (see Box 8 on page MISC-5), (b) at least $600 in rents, services (including parts and materials), prizes and awards, other income payments, medical and health care payments, crop insurance proceeds, cash payments for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish, or, generally, the cash paid from a notional principal contract to an individual, partnership, or estate; (c) any fishing boat proceeds; or (d) gross proceeds paid to an attorney (see Payments to attorneys below). In addition, use Form 1099-MISC to report that you made direct sales of at least $5,000 of consumer products to a buyer for resale anywhere other than a permanent retail establishment. You must also file Form 1099-MISC for each person from whom you withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment.

Be sure to report payments in the proper box because the IRS uses this information to determine whether the recipient has properly reported the payment.

Trade or business reporting only. Report on Form 1099-MISC only when payments are made in the course of your trade or business. Personal payments are not reportable. You are engaged in a trade or business if you operate for gain or profit. However, nonprofit organizations are considered to be engaged in a trade or business and are subject to these reporting requirements. Nonprofit organizations subject to these reporting requirements include trusts of qualified pension or profit-sharing plans of employers, certain organizations exempt from tax under section 501(c) or (d), and farmers’ cooperatives that are exempt from tax under section 521. Payments by Federal, state, or local government agencies are also reportable.

Exceptions. Some payments are not required to be reported on Form 1099-MISC, although they may be taxable to the recipient. Payments for which a Form 1099-MISC is not required include:
- Generally, payments to a corporation; but see Payments reportable to corporations below;
- 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);
- PS 58 costs (report on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.); and
- Payments to a tax-exempt organization, the United States, a state, the District of Columbia, a U.S. possession, or a foreign government.

Payments to attorneys. A payment to an attorney as an award, fee, or reward for information about criminal activity is not required to be reported if the payment is made by a Federal, state, or local government agency, or by a nonprofit organization exempt from tax under section 501(c)(3) that makes the payment to further the charitable purpose of lessening the burdens of government. For more information, see Regulations section 1.6041-3(h).

Scholarships. Do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2. Other taxable scholarship or fellowship payments (to a degree or nondegree candidate) are not required to be reported by you to the IRS on any form. See Notice 87-31, 1987-1 C.B. 475 and Regulations section 1.6041-3(o) for more information.

Difficulty-of-care payments. Difficulty-of-care payments that are excludable from the recipient’s gross income are not required to be reported. Difficulty-of-care payments to foster care providers are not reportable if paid for not more than 10 children under age 19 and not more than 5 individuals age 19 or older. Amounts paid for more than 10 children or more than 5 individuals are reportable on Form 1099-MISC.

Payments reportable to corporations. The following payments made to corporations generally must be reported on Form 1099-MISC:
- Medical and health care payments reported in box 6. (But see Box 6 on page MISC-4.)
- Fish purchases for cash reported in box 7.
- Attorneys’ fees reported in box 7.
- Gross proceeds paid to an attorney reported in box 14.
- Payments by a Federal executive agency for services (vendors) reported in box 7;
- Substitute payments in lieu of dividends or tax-exempt interest reported in box 8.

Payments to attorneys. Attorneys’ fees of $600 or more paid in the course of your trade or business are and continue to be reportable in box 7 of Form 1099-MISC. However, if you make a payment in the course of your trade or business to an
In connection with legal services and the attorney’s fee is not reportable by you, the total amount paid to the attorney (gross proceeds) must be reported in box 14. For example, an insurance company pays a claimant’s attorney $100,000 to settle a claim. The claimant’s attorney’s fee is not reportable by the insurance company. Therefore, the insurance company must report $100,000 in box 14 of Form 1099-MISC.

These rules apply whether or not the client is the attorney. For example, in the trade or business of fishing, you must report total cash payments of $600 or more paid during the year to any person who is engaged in the trade or business of catching fish, report these payments in box 7. You are required to keep records showing the date and amount of each cash payment made during the year, but you must report only the total amount paid for the year on Form 1099-MISC.

Fishing purchases. If you are in the trade or business of purchasing fish for resale, you must report total cash payments of $600 or more paid during the year to any person who is engaged in the trade or business of catching fish, report these payments in box 7. You are required to keep records showing the date and amount of each cash payment made during the year, but you must report only the total amount paid for the year on Form 1099-MISC.

See the separate Instructions for Forms 1099-A and 1099-C.

Deceased employee’s wages paid to estate or beneficiary. If an employee died during the year, you must report on Form 1099-MISC the accrued wages, vacation pay, and other compensation paid after the date of death. If you made the payment in the same year the employee died, you must withhold social security and Medicare taxes on the payment and report them only as social security and Medicare wages on the employee’s Form W-2 to ensure that proper social security and Medicare credits are received. On Form W-2, show the payment as social security wages (box 3) and Medicare wages and tips (box 5) and the social security and Medicare taxes withheld in boxes 4 and 6; do not show the payment in box 1 of Form W-2. If you made the payment after the year of death, do not report it on Form W-2, and do not withhold social security and Medicare taxes.

Whether the payment is made in the year of death or after the year of death, you must report it on Form 1099-MISC for the payment to the estate or beneficiary. Report the payment in box 3 (rather than in box 7 as specified in Rev. Rul. 86-109, 1986-2 C.B. 196). See the Example below. Enter the name and TIN of the payment recipient on Form 1099-MISC. For example, if the recipient is an individual beneficiary, enter the name and social security number of the individual; if the recipient is the estate, enter the name and employer identification number of the estate. The general backup withholding rules apply to this payment.

However, death benefits from qualified and nonqualified deferred compensation plans paid to the estate or beneficiary of a deceased employee are not reportable on Form 1099-MISC but are reportable on Form 1099-R. See the separate Instructions for Forms 1099-R and 5498.

Example. Before Employee A’s death on June 15, 2002, A was employed by Employer X and received $10,000 in wages on which Federal income tax of $1,500 was withheld. When A died, X owed A $2,000 in wages and $1,000 in accrued vacation pay. The total of $3,000 (less the social security and Medicare taxes withheld) was paid to A’s estate on July 20, 2002. Because X made the payment during the year of death, X must withhold social security and Medicare taxes on the $3,000 payment and must complete Form W-2 as follows:

- Box 1 — $10000.00 (does not include the $3,000 accrued wages and vacation pay)
- Box 2 — 1500.00
- Box 3 — 13000.00 (includes the $3,000 accrued wages and vacation pay)
- Box 4 — $600.00 (6.2% of the amount in box 3)
- Box 5 — 13000.00 (includes the $3,000 accrued wages and vacation pay)
- Box 8 — 188.50 (1.45% of the amount in box 5)

Employer X also must complete Form 1099-MISC as follows:

- Boxes for recipient’s name, address, and TIN — the estate’s name, address, and TIN
- Box 3 — $3000.00 (Even though amounts were withheld for social security and Medicare taxes, the gross amount is reported here.)

If Employee X made the payment after the year of death, the $3,000 would not be subject to social security and Medicare taxes and would not be shown on Form W-2. However, the employer would still file Form 1099-MISC.

Employee business expense reimbursements. Do not use Form 1099-MISC to report employee business expense reimbursements. Report payments made to employees under a nonaccountable plan as wages on Form W-2. Generally, payments made to employees under an accountable plan are not reportable on Form W-2, except in certain cases when you pay per diem or mileage allowance. For more information, see the Instructions for Forms W-2 and W-3 and Pub. 463, Travel, Entertainment, Gift, and Car Expenses. For information on reporting employee moving expense reimbursements on Form W-2, see the Instructions for Forms W-2 and W-3.

Independent contractor or employee. Generally, you must report payments to independent contractors on Form 1099-MISC. Additional requirements for relief under section 530, employers must file Form 1099-MISC. Additional requirements for relief are discussed in Rev. Proc. 85-18, 1985-1 C.B. 518. Also, see Notice 87-19, 1987-1 C.B. 455, for special rules that may apply to certain skilled workers, such as engineers, designers, drafters, computer programmers, and systems analysts.

Transfer passes and parking for independent contractors. Although you cannot provide qualified transportation fringe benefits to independent contractors, the de minimis fringe rules for transit passes and parking apply to independent contractors. Tokens or farecards that enable an independent contractor to commute on a public transit system (not including privately operated van pools) are excludable from the independent contractor’s gross

The tax and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
Statements to recipients.

as part of the reportable payment. However, if sales taxes are not included in prizes and awards paid to your business establishment where the damages are placed is a lease of the damages or the space usage, the owner of the damages or the owner of the space, whoever makes the payments, must report the lease payments in box 2 of Form 1099-MISC if the payments total at least $600. However, if the arrangement is a joint venture, the joint venture must file a Form 1065, U.S. Return of Partnership Income, and provide each partner with information necessary to report the partner’s share of the taxable income. Coin-operated amusements include video games, pinball machines, jukeboxes, pool tables, slot machines, and other machines and gaming devices operated by coins or tokens inserted into the machines by individual users. For more information, see Rev. Rul. 92-49, 1992-2 C.B. 439.

Box 2. Royalties

Enter gross royalty payments of $10 or more before reduction for severance and other taxes that may have been withheld and paid. Include in this box gross royalties (before reduction for fees, commissions, or expenses) paid by a publisher directly to an author or literary agent or paid by a literary agent to an author. Do not include surface royalties. They should be reported in box 1. Do not report oil or gas payments for a working interest in box 2; report payments for working interests in box 7. Do not report timber royalties made under a pay-as-cut contract; report such timber royalties on Form 1099-S, Proceeds From Real Estate Transactions.

Box 3. Other Income

Enter other income of $600 or more required to be reported on Form 1099-MISC that is not reportable in one of the other boxes on the form. Also enter in box 3 prizes and awards that are not for services performed. Include the fair market value (FMV) of merchandise won on game shows. Also include amounts paid to a winner of a sweepstakes not involving a wager. If a wager is made, report the winnings on Form W-2G, Certain Gambling Winnings.

TIP

If, after not later than 60 days after the winner becomes entitled to the prize, the winner can choose the option of a lump sum or an annuity payable over at least 10 years, the payment of winnings is considered made when actually paid. If the winner chooses an annuity, file Form 1099-MISC each year to report the annuity paid during that year.

Do not include prizes and awards paid to your employees. Report these on Form W-2. Do not include in box 3 prizes and awards for services performed by nonemployees, such as an award for the top commission salesperson. Report them in box 7.

Prizes and awards received in recognition of past accomplishments in religious, charitable, scientific, artistic, educational, literary, or civic fields are not reportable if (a) the winners are chosen without action on their part, (b) the winners are not expected to perform future services, and (c) the payer transfers the prize or award to a charitable organization or governmental unit under a designation made by the recipient. See Rev. Proc. 87-54, 1987-2 C.B. 669.

Other items required to be reported in box 3 include the following:

1. Generally, all punitive damages, any damages for nonphysical injuries or sickness, and any other taxable damages. Report punitive damages even if they relate to physical injury or physical sickness. Generally, report all compensatory damages for nonphysical injuries or sickness, such as employment discrimination or defamation. However, do not report damages (other than punitive damages): income and are not reportable on Form 1099-MISC if their value in any month is $21 or less. However, if the value of a pass provided in a month is greater than $21, the full value is includable in gross income and is reportable on Form 1099-MISC. The value of parking may be excludable from an independent contractor’s gross income, and, therefore, not reportable on Form 1099-MISC if certain requirements are met. See Notice 94-3, 1994-1 C.B. 327, and Regulations sections 1.132-1(b)(2), and 1.132-6(a), (b), and (d)(1).

Direct fees. You must report directors’ fees and other remuneration, including payments made after retirement, on Form 1099-MISC in the year paid. Report them in box 7.

Commissions paid to lottery ticket sales agents. A state that has withholding and remuneration for on-line and instant lottery games must file Form 1099-MISC to report commissions paid, whether directly or indirectly, to licensed sales agents. For example, State X retains control over and liability for on-line and instant lottery sales. For on-line ticket sales, State X pays commissions by allowing an agent to retain 5% of the ticket proceeds the agent remits to State X. For instant ticket sales, State X pays commissions by providing tickets to the agent for 5% less than the proceeds to be obtained by the agent from the sale of those tickets. If the commissions for the year total $600 or more, they must be reported in box 7 on Form 1099-MISC. See Rev. Rul. 92-96, 1992-2 C.B. 281.

Escrow agent; construction project. When an escrow agent maintains owner-provided funds in an escrow account for a construction project, performs an oversight function for the construction project, and makes payments for the owner and the general contractor, the escrow agent must file Form 1099-MISC for reportable payments of $600 or more. This requirement applies whether or not the escrow agent is a bank. If the contractor is the borrower of the funds, do not report on Form 1099-MISC any loan payments made to the contractor/borrower. For more information, see Rev. Rul. 93-70, 1993-2 C.B. 294.

Indian gaming profits, payments to tribal members. If you make payments to members of Indian tribes from the net revenues of class II or class III gaming activities conducted or licensed by the tribes, you must withhold Federal income tax on such payments and file Form 1099-MISC.


State or local sales taxes. If state or local sales taxes are imposed on the service provider and you (as the buyer) pay them to the service provider, report them on Form 1099-MISC as part of the reportable payment. However, if sales taxes are imposed on you (as the buyer) and collected from you by the service provider, do not report the sales taxes on Form 1099-MISC.

Statements to recipients. If you are required to file Form 1099-MISC, you must provide a statement to the recipient. For more information about the requirement to furnish a statement to each recipient, see part H in the General Instructions for Forms 1099, 1098, 5498, and W-2G.

2nd TIN not. You may enter an “X” in this box if you were notified by the IRS within 3 calendar years that the payee provided an incorrect TIN. If you mark this box, the IRS will not send you any further notices about this account.

Box 1. Rents

Enter amounts of $600 or more for all types of rents, such as real estate rentals paid for office space (unless paid to a real estate agent), machine rentals (e.g., renting a bulldozer to level your parking lot), and pasture rentals (e.g., farmers paying for the use of grazing land). If the machine rental is part of a contract that includes both the use of the machine and the operator, the rental should be prorated between the rent of the machine (reported in box 1) and the operator’s charge (reported as nonemployee compensation in box 7). Public housing agencies must report in box 1 rental assistance payments made to owners of housing projects. See Rev. Rul. 88-53, 1988-1 C.B. 384.

Coin-operated amusements. If an arrangement between an owner of coin-operated amusements and an owner of a business establishment where the amusements are placed is a lease of the amusements or the space usage, the owner of the amusements or the owner of the space, whoever makes the payments, must report the lease payments in box 1 of Form 1099-MISC if the payments total at least $600. However, if the arrangement is a joint venture, the joint venture must file a Form 1065, U.S. Return of Partnership Income, and provide each partner with information necessary to report the partner’s share of the taxable income. Coin-operated amusements include video games, pinball machines, jukeboxes, pool tables, slot machines, and other machines and gaming devices operated by coins or tokens inserted into the machines by individual users. For more information, see Rev. Rul. 92-49, 1992-2 C.B. 439.

Box 2. Royalties

Enter gross royalty payments of $10 or more before reduction for severance and other taxes that may have been withheld and paid. Include in this box gross royalties (before reduction for fees, commissions, or expenses) paid by a publisher directly to an author or literary agent or paid by a literary agent to an author. Do not include surface royalties. They should be reported in box 1. Do not report oil or gas payments for a working interest in box 2; report payments for working interests in box 7. Do not report timber royalties made under a pay-as-cut contract; report such timber royalties on Form 1099-S, Proceeds From Real Estate Transactions.

Box 3. Other Income

Enter other income of $600 or more required to be reported on Form 1099-MISC that is not reportable in one of the other boxes on the form. Also enter in box 3 prizes and awards that are not for services performed. Include the fair market value (FMV) of merchandise won on game shows. Also include amounts paid to a winner of a sweepstakes not involving a wager. If a wager is made, report the winnings on Form W-2G, Certain Gambling Winnings.

TIP

If, after not later than 60 days after the winner becomes entitled to the prize, the winner can choose the option of a lump sum or an annuity payable over at least 10 years, the payment of winnings is considered made when actually paid. If the winner chooses an annuity, file Form 1099-MISC each year to report the annuity paid during that year.

Do not include prizes and awards paid to your employees. Report these on Form W-2. Do not include in box 3 prizes and awards for services performed by nonemployees, such as an award for the top commission salesperson. Report them in box 7.

Prizes and awards received in recognition of past accomplishments in religious, charitable, scientific, artistic, educational, literary, or civic fields are not reportable if (a) the winners are chosen without action on their part, (b) the winners are not expected to perform future services, and (c) the payer transfers the prize or award to a charitable organization or governmental unit under a designation made by the recipient. See Rev. Proc. 87-54, 1987-2 C.B. 669.

Other items required to be reported in box 3 include the following:

1. Generally, all punitive damages, any damages for nonphysical injuries or sickness, and any other taxable damages. Report punitive damages even if they relate to physical injury or physical sickness. Generally, report all compensatory damages for nonphysical injuries or sickness, such as employment discrimination or defamation. However, do not report damages (other than punitive damages):
a. Received on account of personal physical injuries or physical sickness;
b. That do not exceed the amount paid for medical care for emotional distress; or
c. Received on account of nonphysical injuries (e.g., emotional distress) under a written binding agreement, court decree, or mediation award in effect on or issued by September 13, 1995.

Damages received on account of emotional distress, including physical symptoms such as insomnia, headaches, and stomach disorders, are not considered received for a physical injury or physical sickness and are reportable unless described in b or c above. However, damages received on account of emotional distress due to physical injuries or physical sickness are not reportable.

Also report liquidated damages received under the Age Discrimination in Employment Act of 1967.

C Taxable back pay damages may be wages and reportable on Form W-2. See Pub. 957, Reporting Back Pay and Special Wage Payments to the Social Security Administration.

2. Payments to nonemployees specified in, and payments similar to those specified in, Rev. Rul. 65-18, 1965-1 C.B. 32, about payments to patients and members in Department of Veterans Affairs (VA) hospitals and domiciliaries under the VA therapeutic or rehabilitative programs.

3. Payments as explained on page MISC-2 under Deceased employee’s wages paid to estate or beneficiary.

4. Payments as explained on page MISC-3 under Indian gaming profits, payments to tribal members.

5. Termination payments to former self-employed insurance salespeople. These payments are not subject to self-employment tax and are reportable in box 3 (rather than box 7) if all the following apply:
   a. The payments are received from an insurance company because of services performed as an insurance salesperson for the company.
   b. The payments are received after termination of the salesperson’s agreement to perform services for the company.
   c. The salesperson did not perform any services for the company after termination and before the end of the year.
   d. The salesperson enters into a covenant not to compete against the company for at least 1 year after the date of termination.
   e. The amount of the payments depend primarily on policies sold by the salesperson or credited to the salesperson’s account during the last year of the service agreement or on the extent to which those policies remain in force for some period after termination, or both.
   f. The amount of the payments do not depend at all on length of service or overall earnings from the company (regardless of whether eligibility for payment depends on length of service).

If the termination payments do not meet these requirements, report them in box 7.

Box 4. Federal Income Tax Withheld

Enter backup withholding. For example, persons who have not furnished their TIN to you are subject to withholding at a 30% rate on payments required to be reported in boxes 1, 2 (net of severance taxes), 3, 5 (to the extent paid in cash), 6, 7 (except fish purchases for cash), 8, 10, and 14. For more information on backup withholding, see the General Instructions for Forms 1099, 1098, 5498, and W-2G.

Also enter any income tax withheld from payments to members of Indian tribes from the net revenues of class II or class III gaming activities conducted or licensed by the tribes.

Box 5. Fishing Boat Proceeds

Enter the share of all proceeds from the sale of a catch or the FMV of a distribution in kind to each crew member of fishing boats with normally fewer than 10 crew members. A fishing boat has normally fewer than 10 crew members if the average size of the operating crew was fewer than 10 on trips during the preceding 4 calendar quarters.

In addition, report cash payments of up to $100 per trip that are contingent on a minimum catch and are paid solely for additional duties (such as mate, engineer, or cook) for which additional cash payments are traditional in the industry. However, do not report on Form 1099-MISC any wages reportable on Form W-2.

Box 6. Medical and Health Care Payments

Enter payments of $600 or more made in the course of your trade or business to each physician or other supplier or provider of medical or health care services. Include payments made by medical and health care insurers under health, accident, and sickness insurance programs. If payment is made to a corporation, list the corporation as the recipient rather than the individual providing the services. You are not required to report payments to pharmacies for prescription drugs. See Rev. Ruls. 69-595, 1969-2 C.B. 242 and 70-608, 1970-2 C.B. 286.

The exemption from issuing Form 1099-MISC to a corporation does not apply to payments for medical or health care services provided by corporations, including professional corporations. However, you are not required to report payments made to a tax-exempt hospital or extended care facility or to a hospital or extended care facility owned and operated by the United States (or its possessions), a state, the District of Columbia, or any of their political subdivisions, agencies, or instrumentalities.

Box 7. Nonemployee Compensation

Enter nonemployee compensation of $600 or more. Include fees, commissions, prizes and awards for services performed as a nonemployee. Other forms of compensation for services performed for your trade or business by an individual who is not your employee, and fish purchases for cash. Include oil and gas payments for a working interest, whether or not services are performed. Also include expenses incurred for the use of an entertainment facility that you treat as compensation to a nonemployee. Federal executive agencies that make payments to vendors for services, including payments to corporations, must report the payments in this box.

Exceptions. Do not report in box 7, nor elsewhere on Form 1099-MISC, PS 58 costs (report on Form 1099-R), an employee’s wages, travel or auto allowance, or bonuses (report on Form W-2); or the cost of group-term life insurance paid on behalf of a former employee (report on Form W-2).

Self-employment tax. Generally, amounts reportable in box 7 are subject to self-employment tax. However, corporations are not subject to self-employment tax. If payments to individuals are not subject to this tax and are not reportable elsewhere on Form 1099-MISC, report the payments in box 3. However, report section 530 (of the Revenue Act of 1978) worker payments in box 7.

Nonemployee compensation. If the following four conditions are met, you must generally report a payment as nonemployee compensation: (1) you made the payment to someone who is not your employee; (2) you made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations); (3) you made the payment to an individual, partnership, estate, or, in some cases, a corporation; and (4) you made payments to the payee of at least $600 during the year.

Examples. The following are some examples of payments to be reported in box 7:

• Professional service fees, such as fees to attorneys (including corporations), accountants, and architects.
• Fees paid by one professional to another, such as fee-splitting or referral fees.
• Payments by attorneys to witnesses or experts in legal adjudication.
• Payment for services, including payment for parts or materials used to perform the services if supplying the parts or materials was incidental to providing the service. For example, report the total insurance company payments to an auto repair
**Instructions for Form 1099-MISC**

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

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**PAYER'S name, street address, city, state, ZIP code, and telephone no.**

<table>
<thead>
<tr>
<th>PAYER'S name</th>
<th>Street address</th>
<th>City, state, ZIP code</th>
<th>Telephone no.</th>
</tr>
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<tbody>
<tr>
<td>Jeremy Michaels</td>
<td>XYZ Builders</td>
<td>Oakstown, VA 22000</td>
<td>703-123-4567</td>
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**RECIPIENT'S identification number**

<table>
<thead>
<tr>
<th>RECIPIENT'S name</th>
<th>Identification number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zachary Austin</td>
<td>123-45-6789</td>
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**Form 1099-MISC**

<table>
<thead>
<tr>
<th>Box</th>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
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<td>Rents</td>
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</tr>
<tr>
<td>2</td>
<td>Royalties</td>
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</tr>
<tr>
<td>3</td>
<td>Other income</td>
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</tr>
<tr>
<td>4</td>
<td>Federal income tax withheld</td>
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<tr>
<td>5</td>
<td>Fishing boat proceeds</td>
<td>$0</td>
</tr>
<tr>
<td>6</td>
<td>Medical and health care payments</td>
<td>$0</td>
</tr>
<tr>
<td>7</td>
<td>Nonemployee compensation</td>
<td>$5000.00</td>
</tr>
<tr>
<td>8</td>
<td>Substitute payments in lieu of dividends or interest</td>
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</tr>
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<td>9</td>
<td>Payments to section 530 (of the Revenue Act of 1978)</td>
<td>$1234</td>
</tr>
<tr>
<td>10</td>
<td>Crop insurance proceeds</td>
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</tr>
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<td>Excess golden parachute payments</td>
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<td>12</td>
<td>Gross proceeds paid to an attorney</td>
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<td>State tax withheld</td>
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<td>14</td>
<td>State/Payer's state no.</td>
<td>$0</td>
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<tr>
<td>15</td>
<td>Exempt income</td>
<td>$0</td>
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</table>

**For Privacy Act and Paperwork Reduction Act Notice, see the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

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**Shop under a repair contract showing an amount for labor and another amount for parts, if furnishing parts was incidental to the repair contract.**

- **Commissions paid to nonemployee salespersons that are subject to repayment but not repaid during the calendar year.**
- **A fee paid to a nonemployee, including an independent contractor, or travel reimbursement for which the nonemployee did not account to the payer, if the fee and reimbursement total at least $500. To help you determine whether someone is an independent contractor or an employee, see Pub. 15-A.**
- **Payments to nonemployee entertainers for services. (Use Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, for payments to nonresident aliens.)**
- **Exchanges of services between individuals in the course of their trades or businesses. For example, an attorney represents a painter for nonpayment of business debts in exchange for the painting of the attorney's office. The amount reportable by each on Form 1099-MISC is the FMV of his or her services performed. However, if the attorney represents the painter in a divorce proceeding, this is an activity that is unrelated to the painter's trade or business. The attorney must report on Form 1099-MISC the value of his or her services. But the painter need not report on Form 1099-MISC the value of painting the law office because the work is in exchange for legal services that are separate from the painter's business.**
- **Taxable fringe benefits for nonemployees. For information on the valuation of fringe benefits, see Pub. 15-B, Employer's Tax Guide to Fringe Benefits.**
- **Gross oil and gas payments for a working interest.**
- **Payments to an insurance salesperson who is not your common law or statutory employee. See Pub. 15-A for the definition of employee. However, for termination payments to former insurance salespeople, see 5. Termination payments on page MISC-4.**
- **Directors' fees as explained under Directors' fees on page MISC-3.**
- **Commissions paid to licensed lottery ticket sales agents as explained under Commissions paid to lottery ticket sales agents on page MISC-3.**
- **Payments to section 530 (of the Revenue Act of 1978) workers. See the TIP on page MISC-2.**
- **Fish purchases for cash. See Fish purchases on page MISC-2.**
- **Golden parachute payments. A typical golden parachute payment is one made by a corporation to a certain officer, shareholder, or highly paid individual when a change in the ownership or control of the corporation occurs or when a change in the ownership of a substantial part of the corporate assets occurs. See section 280G for more information. In box 7, enter the total compensation, including any golden parachute payments. If you pay an excess golden parachute payment (under section 280G) to a nonemployee, enter the excess in box 13.**

**Illustrated example.** Jeremy Michaels is a building contractor. He subcontractors the drywall work to Zachary Austin, a sole proprietor who does business as Rock Hill Drywall. During the year, Mr. Michaels pays Mr. Austin $5,500. Mr. Michaels must file Form 1099-MISC because he paid Mr. Austin $500 or more in the course of his trade or business, and Mr. Austin is not a corporation. Form 1099-MISC is completed as shown above.

**Box 8. Substitute Payments in Lieu of Dividends or Interest**

Enter aggregate payments of at least $10 received by a broker for a customer in lieu of dividends or tax-exempt interest as a result of the transfer of a customer's securities for use in a short sale. File Form 1099-MISC with the IRS and furnish a copy to the customer for whom you received the payment. However, for
substitute payments in lieu of dividends, do not file Form 1099-MISC or furnish it to your customer if your customer is an individual unless you have reason to know on the record date of the dividend payment that such substitute dividend payment is in lieu of (a) an exempt-interest dividend, (b) a capital gain dividend, (c) a return of capital, or (d) a dividend subject to a foreign tax credit. If you are not required to make a report on Form 1099-MISC for substitute dividends of at least $10, you must report the substitute dividends on Form 1099-DIV. Dividends and Distributions. File Form 1099-MISC for and furnish a copy to an individual for whom you received a payment in lieu of tax-exempt interest.

**Substitute payment** means a payment in lieu of (a) tax-exempt interest to the extent that interest (including OID) has accrued while the short sale was open and (b) a dividend if the ex-dividend date is after the transfer of stock for use in a short sale and before the closing of the short sale.

For more information about reporting substitute payments, see Regulations section 1.6045-2.

**Box 9. Payer Made Direct Sales of $5,000 or More**

Enter an "X" in the checkbox for sales by you of $5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other commission basis for resale (by the buyer or any other person) anywhere other than in a permanent retail establishment. Do not enter a dollar amount in this box.

If you are reporting an amount in box 7, you may also check box 9 on the same Form 1099-MISC.

The report you must give to the recipient for these direct sales need not be made on the official form. It may be in the form of a letter showing this information along with commissions, prizes, awards, etc.

**Box 10. Crop Insurance Proceeds**

Enter crop insurance proceeds of $600 or more paid to farmers by insurance companies unless the farmer has informed the insurance company that expenses have been capitalized under section 278, 263A, or 447.

**Boxes 11 and 12. Reserved**

Make no entries in these boxes.

**Box 13. Excess Golden Parachute Payments**

Enter any excess golden parachute payments. See Golden parachute payments on page MISC-5.

**Box 14. Gross Proceeds Paid to an Attorney**

Report gross proceeds paid to an attorney in connection with legal services (regardless of whether the services are performed for the payer). See Payments to attorneys on page MISC-1.

**Box 15. Blank Box**

You may use box 15 to provide any other information to the recipient.

**Boxes 16–18. State Information**

These boxes, and Copies 1 and 2, are provided for your convenience only and need not be completed for the IRS. Use the state information boxes to report payments for up to two states. Keep the information for each state separated by the dash line. If you withheld state income tax on this payment, you may enter it in box 16. In box 17, enter the abbreviated name of the state and the payer’s state identification number. The state number is the payer’s identification number assigned by the individual state. In box 18, you may enter the amount of the state payment. Use Copy 1 to provide information to the state tax department. Give Copy 2 to the recipient for use in filing the recipient’s state income tax return.
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