OFFICE OF THE CONTROLLER

Compliance and Tax Team

Account Coding – 1099 Tax Implications

June 2024

UNIVERSITY OF
South Carolina

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- These forms are both used for the same basic purpose – as a statement of compensation for tax purposes.

- But these forms **are not** interchangeable.

- The recipients of these forms have differing employment and tax statuses.

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Form W-2 versus Form 1099

	W-2 Recipient	1099 Recipient
Examples	• Salaried or hourly employees who complete daily tasks required for the organization • Executives and management throughout the organization	• Freelance talent (e.g., writers, photographers, graphic designers) • Consultants offering one-time or limited scope of service • Contractors hired through temp agencies or other vendors
Taxes	The employer withholds and remits federal and state taxes and also pays their share of employment, Social Security, and Medicare taxes	No taxes are withheld; the individual is responsible for all the taxes
Benefits	May be eligible for benefits offered by the organization (based on their scheduled weekly hours), such as health insurance and retirement programs	Generally, not eligible for benefits
Work duration	Generally hired for a long-term or indefinite time to support ongoing work	Provide one-time or limited-scale support

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Employee versus Independent Contractor

In addition to tax implications, misclassifying employees can result in significant penalties. The Internal Revenue Service (IRS) uses common law rules, which assist in determining the appropriate classification for a worker:

Behavioral Control

Does the University control or have the right to control what the worker does and how the worker does his or her job?

Financial Control

Are the business aspects of the worker's job controlled by the University (e.g., whether expenses are reimbursed, who provides tools/supplies, etc.)?

Type of Relationship

Are there written contracts or employee type benefits (e.g., insurance, vacation pay)? Will the relationship continue and is the work performed a key aspect of the business?

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Form 1099-MISC versus Form 1099-NEC

	Form 1099-MISC	Form 1099-NEC
Purpose	IRS tax form for reporting miscellaneous income	IRS tax form for reporting nonemployee compensation
Who typically receives the form?	Individuals, such as prize winners or award recipients, whose payments are not associated with providing a service to the University	Individuals, such as independent contractors and freelancers, who received payment for providing a service to the University **(All income reported on the 1099-NEC must be associated with a service)**
Tax Implications	Not subject to self-employment tax	Subject to self-employment tax

Reminder: Only those individuals who receive $600 or more in a given tax year will receive a Form 1099

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Form 1099 Reporting Process

Form 1099 Reporting Process

Every January, the Controller's Office Tax Team generates the Form 1099s for the preceding calendar year (e.g., 2023 forms were generated in January 2024).

Form 1099s are mailed to the individual based on the address reflected on the supplier's profile.

The forms are generated using an automated enhancement in PeopleSoft Finance.

This process is driven by account code – use of the improper account code for the respective expense(s) will result in an incorrect Form 1099.

Accounts Codes Subject to 1099 Forms

1099 Reporting		
Account Codes Subject to 1099 Forms		

1099-MISC (Payments **should not** be associated with a provided service)		1099-NEC (Payments **should** be associated with a provided service)			
52071	CONTRACTUAL SER MEDICAL SUPPOR	52040	REPAIRS	52201	LITIGATION SETTLEMENT TO CLAIM
52074	CONTRACTED SER MEDICAL SUPPORT	52041	REPAIRS TO EQUIPMENT-NON USC W	52250	HONORARIUM AND GUEST LECTURER
52255	ROYALTIES	52044	REPAIRS TO BUILDINGS NON USC W	54531	STIPENDS FOR SERVICES RENDERED
54010	RENTS	52045	GENERAL EQUIPMENT MAINTENANCE	57031	ARCHITECTURAL SERVICES
54013	RENTS-NON DATA PROCESSING EQUI	52046	INFO TECH SOFT AND HARD MAINT	57032	ENGINEERING SERVICES
54014	RENTS	52048	CAPITAL EQUIP MAINT CONTRACTS	57033	SURVEYING SERVICES
54015	RENTALS	52050	PRINTING AND ADVERTISING	57034	TESTING SERVICES
54017	CONTINGENT COPIER RENTAL PAY	52052	PRINTING-NON USC WORK	57035	GENERAL SERVICES
54031	BINDING LEASES-STATE OWNED PRO	52054	ADVERTISING	57100	SITE DEVELOPMENT
54033	NON-BINDING LEASES-NON-DATA PR	52066	MARKETING SERVICES	57110	BUILDING CONSTRUCTION
54034	BINDING LEASES-NON STATE-OWNED	52067	PROMOTIONAL SERVICES	57120	RENOVATIONS-BUILDING INTERIOR
54040	EQUIPMENT LEASES	52069	TRAVEL CONTRACTUAL SERVICES	57130	RENOVATIONS-UTILITIES
54520	PARTICIPANT TUITION AND FEES	52070	CONTRACTUAL SERVICES	57140	ROOFING-REPAIRS AND RENOVATION
54525	GRADUATE ASSISTANT TUITION SUP	52072	CONTRACTUAL SER LEGAL	57150	RENOVATIONS-BUILDING EXTERIOR
54530	FELLOWSHIPS ON GRANTS	52073	CONSULTANTS	57160	OTHER PERMANENT IMPROVEMENTS
54533	INCENTIVE UNDER 50.00	52075	CONTRACTED SER ANIMAL CARE	57170	LANDSCAPING
54534	INCENTIVE OVER 50.00	52076	CONT SERV SUBRECIPIENTS-FIRST	59501	EVENT GAME OFFICIALS
54535	HUMAN SUBJECT INCENTIVES	52077	CONTRACTED SER MOVING EXPENSE	59503	EVENT OPERATIONS
54536	PARTICIPANT STIPEND	52078	SYSTEM CONTRACT INSTRUCTION	59504	EVENT FOOD
54541	PARTICIPANT TRAVEL	52080	SECURITY - CONTRACTUAL	59510	OTHER TEAM MEALS
54550	SCHOLARSHIPS	52084	SUBRECIPIENTS	59520	OTHER TEAM TRAVEL EXPENSE
54551	SCHOLARSHIP RECOVERIES NON REP	52085	CONTRACTUAL SERVICES OTHER NON	59521	TEAM LODGING
54560	PARTICIPANT HOUSING	52086	CONT SERV-EMPLOYMENT AGENCY	59522	TEAM MEALS AND PER DIEM
54563	PARTICIPANT MATERIALS	52089	SOM IRB CONTRACT SVCS	59523	TEAM TRANSPORTATION
54570	PRIZES AND AWARDS-USC REPORTAB	52090	DATA PROCESSING SERVICES-COMME	59524	VISITING TEAM EXPENSE
54580	PRIZES AND AWARDS USC NON REPO	52091	SITE LICENSE FEE	59525	AD EVENTS POST SEASON
59401	ATH SCHOLAR-TUITION & FEES	52092	GLOBAL/DOMESTIC CLASSROOM STUD	59526	AD PRESEASON EVENTS
59408	ATH SCHOLARSHIP COST OF LIVING	52093	SOFTWARE AS A SERVICE	59527	AD SEC CHAMPIONSHIP TRAVEL
59532	MEDICAL SERVICES	52100	DATA PROCESSING SERVICES	59531	LAUNDRY SERVICES
59533	AD EVENT EXP RENTALS	52102	AD PUBLIC RELATIONS	59534	REPAIRS OF EQUIPMENT
54590	HUD RW FINANCIAL ASSISTANCE	52103	PROMOTIONAL SUPPLIES	59535	GROUNDS MAINTENANCE
		52104	AD ADVERTISING	59537	EVENT PARKING
		52105	ATH PUBLIC RELATIONS - EVENTS	59541	UNIFORMS AND APPAREL
		52110	JANITORIAL SERVICES - CONTRACT	59544	TICKET SUPPLIES
		52125	DoIT CLOUD SERVICES	59547	PHOTOGRAPHY SERVICES
		52130	PERSONNEL SERVICES -IIT	59560	GRAPHICS

- The account code used should coincide with the nature of the expense.

- Expenses coded to a Form 1099-NEC account **should** be associated with a provided service.

- Expenses coded to a Form 1099-MISC account **should not** be associated with a provided service.

- Form 1099s **will not** be generated for expenses coded to accounts not included in this listing.

Example – Common Error

Stipends: One-time or periodic payments granted to a student as part of a scholarship, fellowship allowance, or other payment not meeting the definition of an employee/employer relationship, as determined by HR.

Account 54530: Fellowships

Used to pay an individual, typically a grad student on a grant, to support themselves while studying, training, and learning to do research. Student is **not** providing a service to the University.

Account 54531: Stipends for Services Rendered

Used for payments where an individual **is** providing services but does not meet the definition of an employee or the sponsor stated the individual cannot be treated as an employee. Example: a student providing research on a grant that does not allow employees.

Note: Sponsor guidelines must be followed when paying students for services rendered.

Administrative Impact

- When an incorrect Form 1099 is generated and issued, the Controller's Office Tax Team must process a manual correction and reissue the form.

- Between issuance and the tax filing deadline (April 15th), the Controller's Office Tax Team is inundated with 1099 inquiries.

- Getting the underlying account coding correct on the front end reduces the number of corrections needed.

2023 Volume

Form 1099-MISC: 825
Form 1099-NEC: 3303

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Departmental Responsibility

Departmental Responsibility

- Since Form 1099s are generated based on account code usage, the Controller's Office Tax Team relies on departments to use the appropriate account codes on the front-end.

- Business Managers are encouraged to utilize and refer to available resources to guide appropriate account code usage and payments, including the Payment Request Matrix, 1099 Account Code Guide, and Student Payment Method Decision Tree.

- Perform a periodic review of the expenses coded to 1099 applicable accounts to ensure accuracy and consistency and allow for the completion of timely corrections, if needed.

- **Reminder:** Tax rules are the same for sponsored awards. Expenses should be posted in accordance with the approved budget.

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Resources

Available Resources

- IRS Guidance – Independent Contractor or Employee?

- Form 1099-M

- Form 1099-NEC

- 1099 Withholding Account Code Guide

- Payment Request Matrix

- Student Payment Method Decision Tree

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Questions

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