

About & Policy: Medical Research Payments on a 1099-NEC or 1099-MISC

FC will occasionally prepare a return for a taxpayer who has been compensated for participating in medical research. Examples of companies that pay for medical research in Austin include PPD, Central Texas Clinical Research, and the Austin Institute for Clinical Research.

For all tax years, this compensation should be reported on Form 1099-MISC in Box 3.

An example of incorrectly reported compensation for medical research would be a taxpayer who receives:

- A Form 1099-NEC for tax years 2020 and beyond; or
- A Form 1099-MISC with the amount incorrectly placed in Box 7 rather than Box 3 for tax years up to 2019

Policy

Returns prepared with incorrect reported medical compensation must be **PAPER** returns that are mailed to the IRS.

When compensation for medical research has been incorrectly reported, FC will follow these steps to prepare the return:

1. Enter the compensation amount as **Federal Section 871 Income 1099-MISC in Box 3 Other Income** (as though it had been correctly entered in Box 3 of a Form 1099-MISC).
2. Set the **Return Type** to **Paper** on the **E-File** screen.
3. Quality Reviewers, instruct the taxpayer to:
 - a. Sign the printed return;
 - b. Staple to page one of the Form 1040 the incorrect 1099-MISC or 1099-NEC, all W-2s, and any other tax document that show withholding;
 - c. Print the statement below, complete with the taxpayer, and attach it to the return; and
 - d. Mail the packet to the IRS.

Note: The intention is to prepare the return correctly but also preempt a letter to the client from the IRS by sending in an explanation with the original tax return.

To Whom It May Concern:

As compensation for medical research payments, I received:

- Form 1099-NEC; or
- Form 1099-MISC with Box 7

These payments were misclassified as nonemployee compensation. My Form 1040 reports these medical research payments as nonemployee compensation on line Line 21, as Other Income.

Thank you.

Signature

Date