



Keepseagle Second Round Settlement Payment and Your Form 1099 Information Return*

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Introduction

“All Second Round Keepseagle Awardees Must File a Tax Return”

Receiving the second round of the settlement payment is the next step in finalizing a Keepseagle settlement. All settlement recipients will need to file a federal income tax return and report this settlement as income, regardless of current income level, land status, or current employment status. This return needs to be filed even if they have not filed a federal income tax return before. Each settlement recipient will be receiving a Form 1099 MISC around mid-January. **Recipients must file a tax return to comply with IRS regulations. Many recipients may qualify for a tax refund but will not receive the refund unless they file a return.**

This article is intended to cover the most common actions each second round Keepseagle award recipient will need to take once the Form 1099 has been received. Individual's circumstances will vary and situations may have complicating factors, such as estate issues. **This information is intended for educational purposes only. Seek the advice of your tax professional regarding the application of these general principles to your individual circumstances.**

Note. All recipients of the second round of Keepseagle Settlement payment will need to file a federal income tax return reporting this payment as income, regardless of current income level, land status, or current employment status. This return needs to be filed even if they have not filed an income tax return before. Failure to file a return with the correct income included could result in additional amounts owed to the IRS for interest and penalties. If recipients qualify for a tax refund, it will not be issued if a return is not filed.

Form 1099 Informational Returns

The 1099 tax forms are informational forms used to report various types of income (other than wages, salaries, and tips). For each form filed, one copy is sent to the Internal Revenue Service (IRS) and another copy to the recipient of the payment. The IRS will then look for and match the amounts from their copy of the Form 1099 to the amount reported on the recipient's federal tax return.

Although there are several common 1099 forms used for IRS tax reporting purposes, the focus of this article will be on **Form 1099-MISC**. Form 1099-MISC is used to report income from a variety of sources. Second round awardees will or have already received an award of \$18,500, and have had \$2,775 directly paid to the IRS on their behalf in the form of tax relief; both the award and the tax relief will be reflected on the Form 1099-MISC. The following sections cover the reporting requirements for payments received and reported on the Form 1099-MISC.

Reporting Second Round Settlement on Form 1099-MISC

The Form 1099-MISC will include two amounts. One is in Box 3 "Other Income" and the other is in Box 4 "Federal Income Tax Withheld". The amount in Box 3 will be the amount of the check received plus the amount paid to the IRS for income tax withheld on your behalf. For second round recipients, this will be \$21,275 (\$18,500 + \$2,775). The amount from Box 3 will be included in your income. This will increase your taxable income and income tax owed. However, the amount from Box 4 (\$2,775) will be deducted from the income tax owed. It may be that the net is a refund that will be paid to you. If the tax owed is more than the income tax paid, you will need to pay the additional income tax to the IRS.

Note. The Form 1099-MISC received will include both the amount received directly in the settlement and the amount paid to the IRS on the recipient's behalf. The amount will be \$21,275.

Example 1 Part 1: Joe Elder qualified for and received a second round settlement. Joe receives a check for \$18,500, and \$2,775 is paid to the IRS in Joe’s name. Joe receives a 1099- MISC showing \$21,275 in Box 3 “Other Income” and \$2,775 in Box 4 “Federal Income Tax Withheld”.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. USDA		1 Rents	OMB No. 1545-0115 2018 Form 1099-MISC		Miscellaneous Income
		\$			
		2 Royalties			
		3 Other income	4 Federal income tax withheld \$ 2,775		Copy B For Recipient
		\$ 21,275			
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds	6 Medical and health care payments		This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Joe Elder Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		\$	\$		
		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest		
		\$	\$		
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	
		10 Crop insurance proceeds	11		12
		\$	\$		\$
13 Excess golden parachute payments		14 Gross proceeds paid to an attorney		15a Section 409A deferrals 15b Section 409A income	
		\$		\$	
16 State tax withheld		17 State/Payer's state no.		18 State income	
\$		\$		\$	

Form **1099-MISC** (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

The tax treatment and reporting requirements will differ depending on whether or not you were farming in 2018. If you were a farmer in 2018, report the full amount from Form 1099-MISC Box 3 “Other Income” on Line 8: Other Income on the Schedule F (Form 1040), Profit or Loss from Farming. This amount is subject to self-employment tax if you were engaged in the business of farming in 2018. Identify this amount on Line 8 as “Keepsagle Settlement”. Refer to Example 1 Part 2.

Note. Although in some cases farm income derived from trust land may be exempt, it is still necessary to file a return with the amount from the 1099-MISC on a Schedule F (Form 1040). You are encouraged to seek professional assistance in filing these tax returns.

Example 1 Part 2: Joe Elder was farming in 2018. After receiving the Form 1099-MISC seen in Example 1 Part 1 (above), Joe files a tax return showing the amount from Box 3 “Other Income” on Form 1099-MISC on Line 8: Other Income of Schedule F (Form 1040), Profit or Loss from Farming. Identify this amount on Line 8 as “USDA Settlement”.

SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, or Form 1065. ▶ Go to www.irs.gov/ScheduleF for instructions and the latest information.		2018 Attachment Sequence No. 14	
Name of proprietor Joe Elder				Social security number (SSN)	
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
D Employer ID number (EIN), (see instr)					
E Did you “materially participate” in the operation of this business during 2018? If “No.” see instructions for limit on passive losses <input type="checkbox"/> Yes <input type="checkbox"/> No					
c If election to defer to 2019 is attached, check here ▶ <input type="checkbox"/>		6d Amount deferred from 2017		6d	
7 Custom hire (machine work) income				7	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		Keepseagle Settlement		21,275	

Joe includes the amount from Box 4 from Form 1099-MISC on Line 16 Form 1040 as part of his payments of federal tax.

Form 1040 Department of the Treasury—Internal Revenue Service (99)		2018		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
Filing status: <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)							
Your first name and initial Joe		Last name Elder		Your social security number			
Your standard deduction: <input type="checkbox"/> Someone can claim you as a dependent <input type="checkbox"/> You were born before January 2, 1954 <input type="checkbox"/> You are blind							
If joint return, spouse's first name and initial		Last name		Spouse's social security number			
16 Federal income tax withheld from Forms W-2 and 1099				16 2,775			

If you were not a farmer or actively involved in a farming business in 2018, report the full amount from Form 1099-MISC Box 3 “Other Income” on Schedule 1 (Form 1040), Additional Income and Adjustments to Income on Line 21: Other Income. Identify this amount as “Keepseagle Settlement”. Refer to Example 1 Part 3.

Example 1 Part 3: Joe Elder, after receiving the Form 1099-MISC seen in Example 1 Part 1 (above), files a tax return showing the amount from Box 3 “Other Income” on Form 1099-MISC on Line 21 of his Schedule 1 (Form 1040).

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2018 Attachment Sequence No. 01	
Name(s) shown on Form 1040				Your social security number	
Joe Elder					
Additional Income	1-9b	Reserved		1-9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes		10	
	11	Alimony received		11	
21	Other income. List type and amount ▶ Keepseagle Settlement			21	21,275
22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23 . . .			22	

Joe includes the amount from Box 4 Form 1099-MISC on Line 16 of his Form 1040 as part of his payments of federal tax.

Form 1040		Department of the Treasury—Internal Revenue Service (99)		2018		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
Filing status: <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)									
Your first name and initial			Last name			Your social security number			
Joe			Elder						
Your standard deduction: <input type="checkbox"/> Someone can claim you as a dependent <input type="checkbox"/> You were born before January 2, 1954 <input type="checkbox"/> You are blind									
If joint return, spouse's first name and initial			Last name			Spouse's social security number			
16	Federal income tax withheld from Forms W-2 and 1099							16	2,775

Other Tax Impacts

The settlement may have implications on other tax issues as well. It may affect earned income credit, child care credit, and tax on social security benefits. The net result may be that the recipient gets a tax refund or that the recipient may owe federal income tax. Each case may be different.

IRS Publications

More information on these and other Form 1099s can be found in “A Guide to Information Returns” on the IRS website at www.irs.gov. Enter “A Guide to Information Returns” in the search box in the top right-hand portion of the page. Detailed information on specific Form 1099s can also be found by entering the form name (ex. “Form 1099-MISC”) in the search box. The search results will include the specified form, and instructions for

completing the form. Fact sheets that might be of interest include the specified form and instructions for completing the form.

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax, please see RuralTax.org.

Related articles that might be helpful include:

- [Form 1099 Informational Returns](#)

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

The land-grant universities involved in Rural Tax Education are affirmative action/equal opportunity institutions.