

Title	Royalty Payments
Version	V 1.0
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Copyright	South Dakota Board of Regents
Process Owner	Garrett
Dept/Division	South Dakota Board of Regents

Description:

The purpose of this white paper is to identify the process for paying out royalty payments that will be taxable through a 1099.

The institution will use this information when an employee is to be paid a portion of a royalty received by the institution. Royalties are not considered wages to be on the W2, so they need to be placed on a 1099.

Reference Information:

Request for New Account Code

- 1. Account Code Name: Royalty Payments – Intellectual Properties
 Account Code: 744961

2. Hierarchy of New Codes

Acct. Code	Description / Title	Level 2 Type	D/C Bal	Pred. Acct	Data Entry
70	Operating Expenses				N
74	Contractual Services			70	N
741	Contractual Services			74	N
744961	Royalty Payments to Employees		DR	741	Y

- a. MSA map code : Attribute Type: STATSA
 Attribute Value: 52049600
- b. GASB map code: Attribute Type: N/A
 Attribute Value:

3. Justification or Explanation for Need.

Institutions may receive royalties associated with intellectual property (invention, patent, copyright) developed by a researcher. The institution in turn pays a portion of these royalties back to the inventor/researcher. Use this account code to report royalty payments to employees and non-employees entitled to the royalty.

Royalties are to be handled through AP instead of payroll according to IRS regulations. Royalty payments are 1099 reportable if the payment is \$10 or more.

1099-MISC	Miscellaneous Income (Also, use this form to report the occurrence of direct sales of \$5000 or more of consumer goods for resale.)	Rent or royalty payments ; prizes or awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties
		Payments to crew-members by owners or operators of fishing boats including payments of proceed from sale of catch.	All amounts
		Payments to a physician, physician's	\$600 or more

		corporation, or other supplier of health or medical services. Issued mainly by medical assistance programs or health and accident insurance plans.	
		Payments for services performed for a trade or business by people not treated as its employees. Example: fees to subcontractors or directors, and golden parachute payments.	\$600 or more
		Fish purchases paid in cash for resale.	\$600 or more
		Substitute dividend and tax-exempt interest payments reportable by brokers	\$10 or more
		Crop Insurance proceeds	\$600 or more
		Gross Proceeds paid to attorneys	All amounts

Since the IRS does not consider it income for the purposes of W2, the South Dakota Retirement System does not consider a royalty as compensation.

(20) *"Compensation," gross wages paid to a member by the employer for personal services rendered during the period considered as credited service:*

(a) *Compensation includes amounts reported as wages, tips and other compensation on the member's federal form W-2 wage and tax statement, except as otherwise excluded in this subdivision; the amount of member contributions made by an employer on or after July 1, 1984, pursuant to § 3-12-71; any amount contributed to a member's individual retirement plan which meets the requirements of section 401, 403, 408, or 457 of the Internal Revenue Code of 1986, as amended; and any amount contributed to a plan described in section 125 of the Internal Revenue Code of 1986, as amended; and any amount contributed to the system pursuant to § 3-12-83.2 in accord with § 414(h)(2) of the Internal Revenue Code as in effect on January 1, 1996....*

Dr. Gary Johnson, System V.P. for Research, and the Research Affairs Council, wants to track royalty payments for reporting purposes.