

Should boosters issue 1099s to parents?
James Driver
Division of Local Government Services
James.driver@ky.gov

I have been asked by school boards across the State as to whether or not school boosters for football, band, and the like should receive 1099s for working to reduce the cost of trips or equipment for individual students? A common practice is for students to receive a reduction in the cost of a trip by parents working at fundraisers to reduce the overall cost of a trip or even to purchase equipment for the student.

Whenever I train on these issues I encourage people to remember this statement: "All income is taxable unless specifically excluded by law".

The information I am sharing is for general purposes only and in no way reflects an IRS ruling received by the Commonwealth of Kentucky. However, the information can be used in helping guide school board districts when determining cases similar in this discussion.

Review of IRS regulations reflects the definition of income. FINAL-REG, TAX-REGS, **§1.61-1. Gross income:**

- (a) *General definition.* —Gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock, or other property, as well as in cash. Section 61 lists the more common items of gross income for purposes of illustration.

Also, FINAL-REG, TAX-REGS, **§1.61-2. Compensation for services, including fees, commissions, and similar items:**

- (1) *In general.* —Except as otherwise provided in paragraph (d)(6)(i) of this section (relating to certain property transferred after June 30, 1969), if services are paid for in property, the fair market value of the property taken in payment must be included in income as compensation. If services are paid for in exchange for other services, the fair market value of such other services taken in payment must be included in income as compensation. If the services are rendered at a stipulated price, such price will be presumed to be the fair market value of the compensation received in the absence of evidence to the contrary.

The tangible benefit received (i.e., a specific dollar reduction in the cost of the trip) is directly related to the amount and type of services performed, either as a

rate of pay or a lump-sum benefit for completing a certain amount of service. It seems clear then, that a definite value can be placed on the services provided (the reduction in the trip cost) and this is a fixed and determinable payment for services.

Therefore, as a general rule, the benefit received is compensation for services. There seems to be no statutory exemption here from the general rule of inclusion under IRC 61. The amount of the price reduction is includible in the gross income of the person performing the services (regardless of who actually goes on the trip), and if total payments are \$600 or more for the calendar year, they are reportable on Form 1099-MISC.

For example, a parent works and reduces a trip to a band competition for his/her student by \$1000. The parent would then receive a 1099-Misc reflecting \$1000.

If an organization does not reflect the income on Form 1099-Misc, the organization would be out of compliance with revenue laws and would be subject to normal penalties and fines associated with failing to comply.

In general, these amounts would also be subject to self-employment tax; the burden would be on the recipient to demonstrate that the value received in the form of price reductions are not self-employment income. The recipient must make a determination as to whether the payments constitute self-employment income. The presumption would be that it is. If so, any expenses the parents incur to perform these services are deductible as business expenses on Schedule C, and would reduce the taxable net earnings on Schedule C and on Schedule SE.