

TO: Fiscal Officers of All State Agencies
FROM: Steven L. Valasek, Director of State Accounting
DATE: February 15, 2000
SUBJECT: Combined Settlement/Attorney Payments
NUMBER: 86

The Internal Revenue Service (IRS) guidelines for 1099-MISC reporting have been revised to include a new provision for attorneys. Per IRS Publication 1220, when a settlement payment is made “to an attorney in connection with legal services and the attorney’s fee cannot be determined, the total amount paid to the attorney (gross proceeds) must be reported.”

In order to comply with IRS regulations, two new detail object codes 1268 and 4487 have been established. Effective immediately, when making a combined settlement/attorney payment, and the attorney’s fee is unknown, the voucher must be made payable to the attorney and cite detail object code 1268 or 4487. The attorney’s name must be listed first on line one and must cite the attorney’s Taxpayer Identification Number (TIN).

Combined settlement/attorney payments made after January 1, 2000, which were not processed in accordance with the established guidelines, will require corrective action by the paying agency. Contact the Comptroller’s Vendor Unit for specific instructions

When making settlement/attorney payments, and the attorney’s fee can be determined, two separate vouchers must be prepared. The attorney’s portion of the payment must use detail object code 1244 or 4458.

1268 – Combined Settlement/Attorney Payments

Combined settlement/attorney payments made to an attorney and client when the attorney’s fee cannot be determined. This detail object code is used when permission has been granted from the Office of the Attorney General to use a 1200 line when the agency does not have a tort line. Excludes payments made to attorneys when the distribution between the attorney and client is known. Note: Vouchers should be submitted with the attorney’s name on the first line and should use the TIN of the attorney.

4487 – Combined Settlement/Attorney Payments

Combined settlement/attorney payments made to an attorney and client when the attorney's fee cannot be determined. Excludes payments made to attorneys when the distribution between the attorney and client is known. Note: Vouchers should be submitted with the attorney's name on the first line and should use the TIN of the attorney.

The following detail object codes are currently used to capture payments made to attorneys. The proper usage of these detail object codes is outlined below:

1244 – Legal Fees. *Charges incurred for services of attorneys and other costs directly related to legal services. Court representation and other legal services rendered by attorneys pursuant to the State Indemnification Act must be approved by the Attorney General. Legal consulting, general counsel, bill drafting, legal research, hearing officers and other types of services provided by attorneys not covered under the State Indemnification Act must contain a statement on the voucher attesting to the fact that it is not subject to the State Indemnification Act. Additional examples of chargeable items include court-ordered attorney fees.*

Note: This code is used when making settlement payments to an attorney and permission has been granted from the Office of the Attorney General to use a 1200 line (when the agency does not have a tort line). This code is not used for combined settlement/attorneys payments.

1289 – Contractual Services, Not Elsewhere Classified. *Charges for services rendered by non-employees which cannot reasonably be paid from any other account under "Contractual Services." Miscellaneous services not subject to precise classifications may be charged to this account. Examples are: charges for educational exhibits; catering services; lettering of doors or other equipment; sign-painting; payment of bonus commissions to lottery agents and information, clipping and address services.*

Note: This code is used when making settlement payments and permission has been granted from the Office of the Attorney General to use a 1200 line (when the agency does not have a tort line). This code is not used for attorney payments or combined settlement/attorney payments.

4424 – Industrial Commission. *Payment of awards for death, permanent injury, permanent disfigurements and miscellaneous categories. Includes awards for funeral expenses and lifetime pension awards. Specifically does not include medical or temporary total disability payments.*

Note: This code is used when making payments to the injured party (or designate). This code is not used for attorney payments or combined settlement/attorney payments.

4429 – Tort Claims. *Payments of claims for a wrong committed upon the person or his property independent of a contract.*

Note: This code is used when making payments to the person who had the wrong committed against them. This code is not used for attorney payments or combined settlement/attorney payments.

4458 – Services, Not Elsewhere Classified. *Payments made directly to non-state employees for services which do not fall within a more specific detail object under “Grants and Awards.” Includes the services of attorneys, court reporters and hearing officers.*

Note: This code is used to pay attorneys for legal services. This code is not used for combined settlement/attorney payments.

If you have any questions pertaining to this bulletin, please contact Karla Grigsby at 557-3376. Agencies may access this and other Payroll, SAMS and Accounting Bulletins on the Comptroller’s website at www.ioc.state.it.us, under Reference Library.