



DEFENSE FINANCE AND ACCOUNTING SERVICE COLUMBUS CENTER

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Tax Reporting of EEO Settlement Agreements

The purpose of the checklist is to provide the Agency Resource office and/or Finance office **keywords**, as stated in the language of the settlement. These keywords will help determine which entitlement system an employment-related judgment or settlement payment request should be sent for payment due to IRS reporting guidance. W2s are the tax statement for wages and 1099MISC are the tax statements for non-wages.

W2 Reporting:

If the agency agrees to pay a lump sum amount for any of the following **keywords**, then this type of payment is to be processed through the Defense Civilian Pay System (DCPS). The payment is reported on a W2 tax statement. Return the request back to the local HR or DFAS Civilian Pay for processing. These types of payments are processed on an SF50 or timesheets to payroll.

Keywords for Reporting on a W2 tax statement and paid through Civilian Pay

- Severance pay
- Back pay
- Front pay
- Lost wages
- Overtime or other type of premium pay, i.e. differential pay
- Leave, i.e. annual leave, compensatory leave, final lump sum annual leave, or etc.

1099MISC Reporting:

If the agency agrees to pay a lump sum amount for any of the following **keywords**, these types of payments are to be processed through a Vendor Pay entitlement system. The payment is reported on a 1099MISC tax statement.

Keywords for Reporting on a 1099MISC and paid through Vendor Pay

- Compensatory damages
- Consequential damages
- Punitive/liquidated damages
- Pecuniary or non-pecuniary damages
- Attorney's fees and/or costs
- Medical expenses

Reference: 060514. Tax Withholding and Reporting in Back Pay Matters and
<https://www.irs.gov/pub/irsoia/pmta2009-035.pdf>

Questions on the Tax Reporting contact the DFAS ESS Tax Office at <mailto:dfas.dscss.jjf.mbx.1099-settlement@mail.mil>.