



SUBJECT


1099-MISC REPORTING

I. AUTHORITY

Sections 6041 through 6051 of the Internal Revenue Code require that states and state agencies file information returns on reportable payment types of non-wage compensation paid to reportable payees. A.R.S. § 35-131 states that the ADOA shall develop and prescribe use of a uniform accounting system for all budget units and shall maintain accurate financial records.

II. DEFINITIONS

- A. 1099-MISC - an information return that provides information required by the Internal Revenue Service (IRS). The IRS requires that certain payments made by the State to vendors must be reported annually in the same manner that wages are reported to employees on a Form W-2.
- B. ADOA - Arizona Department of Administration.
- C. Arizona Financial Information System (AFIS) - the State of Arizona automated accounting and financial reporting system.
- D. B-Notice - notice sent to vendors for whom an incorrect or missing Taxpayer Identification Number was filed on an information return, advising them that unless a certified Form W-9 is received, they will be subject to backup withholdings.
- E. Backup Withholdings - the process of withholding income tax of 31% of a payment at the time the payment is made. This is done, for example, when a vendor will not provide his/her Taxpayer Identification Number after receiving a B-Notice.
- F. EIN - Employer Identification Number.
- G. General Accounting Office (GAO) - within the Arizona Department of Administration, Financial Services Division. The GAO is primarily responsible for overseeing the tax and statewide accounting functions of all State agencies.
- H. Incorrect TIN - the IRS considers any TIN incorrect if the number has never been issued by the IRS or the SSA, or if a match cannot be found between the TIN and the name reported on Form 1099-MISC.
- I. IRS - Internal Revenue Service.
- J. SSA - Social Security Administration.
- K. SSN - Social Security Number.
- L. Tax Identification Number (TIN) - can be either a Social Security Number or Employer Identification Number.
- M. W-9 Form - (Request for Taxpayer Identification Number and Certification) - form used to request the correct name and TIN combination of a vendor, and allows the vendor to certify its exemption from backup withholdings.

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III. OVERVIEW OF 1099-MISC PROCESS

All payments made to vendors by agencies that process claims directly through AFIS are stored on the Cumulative Payment Table in AFIS. At the end of a reporting year, only reportable payments made to reportable vendors are retrieved from AFIS to be used in the 1099-MISC reporting process. Those reportable AFIS payments are combined with other reportable payments made by agencies (“tape” agencies) that do not maintain their unique payment information in AFIS. The combined information is used to print Forms 1099-MISC which are mailed to recipients by January 31 of each year and to generate a magnetic tape to file with the IRS by February 28 of each year.

The purpose of filing the returns is two-fold. It allows recipients of income to prepare their income taxes accurately and it allows the IRS to use the information for compliance purposes by matching the reported payments with the recipient's income tax return to verify that the payments were included in their reported income.

IV. GENERAL POLICIES

- A. The IRS requires the State to issue Forms 1099-MISC to vendors and report the information to the IRS if the payee is a reportable entity type, the payment is a reportable payment type **and** the total reportable amount paid to the reportable vendor by the State is \$600 or greater.
- B. When adding a new vendor, or changing an existing one, agencies must obtain a Form W-9 (or GAO approved Substitute W-9) to help ensure that accurate and complete information is entered in the AFIS Vendor File. Forms W-9 are not required for State employees. The GAO may authorize exceptions in certain cases where there is a one-time, non-reportable payment to be made.
- C. All vendors must be properly established in AFIS. If a vendor refuses to provide a correct TIN, contact the 1099 Coordinator at the GAO. **DO NOT** add a new vendor to the vendor file without a correct TIN.
- D. The State (your agency) is liable for instituting backup withholdings if the payee refuses to provide a TIN, if a TIN is obviously incorrect (anything other than 9 numerical digits) or if notified by the IRS that a 1099-MISC was filed with a missing or incorrect TIN. This applies even if the payments are less than \$600 per year.
- E. Agencies are responsible for determining and using the correct transaction codes and Comptroller Objects when paying a claim. Contact your GAO liaison if you have any questions in this area.

V. CRITERIA FOR ISSUING A 1099-MISC

The IRS requires the State to issue Forms 1099-MISC to vendors and report the information to the IRS if the following three criteria exist:

- A. The payee is a reportable entity type;
- B. The payment is a reportable payment type;
- C. The total reportable amount paid to the reportable vendor by the State is \$600 or greater.

Note: The \$600 threshold is reduced to \$10 if the payment is made for royalties. To date, only the State Universities have reported making payments for royalties.

CRITERIA FOR ISSUING A 1099-MISC (cont'd)



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All criteria must exist to meet the reporting requirement. If the payee is not a reportable entity type, no reporting is required (even for reportable payments). See table below.

> \$599 > \$9 for royalties	REPORTABLE PAYMENT	NON-REPORTABLE PAYMENT
REPORTABLE PAYEE	ISSUE 1099-MISC	DO NOT ISSUE 1099-MISC
NON-REPORTABLE PAYEE	DO NOT ISSUE 1099-MISC	DO NOT ISSUE 1099-MISC

Note: 1099-MISC information is reported based upon the actions of each agency when setting a vendor up in the vendor file and subsequently paying that vendor using Comptroller Objects. It is the agency's responsibility to determine the correct reporting status of a vendor and to enter it accordingly into the vendor file. It is also the agency's responsibility to choose the most accurate transaction codes and Comptroller Objects when paying claims using the vendor file.

VI. REPORTABLE PAYEES - The following entity types are reportable payees. They should have a 'Y' entered in the '1099 IND' field of the AFIS vendor file. A 'Y' in this field does not mean that a 1099-MISC will be produced for that vendor. It simply means the vendor is a reportable entity type. These are:

- Individuals (including State employees and board members);
- Sole proprietorships;
- Partnerships/LLPs;
- Estates;
- Trusts;
- Corporations providing medical services;
- Professional and Limited Liability Corporations (PCs and LLCs);
- Other groups of individuals (including joint ventures, associations and clubs).

Note: State employees as individuals or payees are a reportable entity type and should have a 'Y' entered in the '1099 IND' field in the vendor file. When an employee is a valid vendor to the State (for example, the State may pay rent to the employee for property that the employee owns) payments are coded as 1099-MISC reportable based upon the Comptroller Objects used and should produce a 1099-MISC for the employee. **When reimbursing an employee for travel, however, it is important that the proper non-1099-MISC reportable Comptroller Objects be used on the claim, otherwise a 1099-MISC could be issued to the traveler.**

VII. REPORTABLE PAYMENTS (by income type)

Several distinct categories of income are reported on Forms 1099-MISC. The different categories are reported by income type. Each income type is reported in a different box on Form 1099-MISC. For example, income type 1 would be reported in box 1 of the form.

REPORTABLE PAYMENTS (cont'd)



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It is important that the vendor's income be reported with the correct income type (in the correct box) because there are income tax implications to the 1099-MISC recipient. Certain amounts shown on the form may be subject to self-employment (social security) tax. The recipient reports the different income types to the IRS based upon instructions printed on back of the Form 1099-MISC.

Refer to the following table for reportable Comptroller Objects by income type.

REPORTABLE COMPTROLLER OBJECTS BY INCOME TYPE								
Rents (Type 1)		Royalties (Type 2)	Other Income (Type 3)	Medical (Type 6)	Non-Employee Compensation (Type 7)			
7101	7183	ASU	6497	6271	6211	6491	6979	7048
7104	7188	U of A	6999	6274	6233	6493	6989	7049
7106	7195	and	7969	6279	6235	6494	6992	7311-7316
7121	7202	NAU	7990	6274	6237	6495	6993	7319
7123	7203	only		6311-6317	6239	6496	6996	7321
7129	7216			6319-6334	6251	6498	6997	7322
7141	7223			6914	6253	6499	7011	7511-7519
7145	7231			6917	6254	6751	7013	7521-7526
7149	7237			6919	6257	6752	7015	7532-7536
7153	7244			6921	6259	6755	7017	7538-7569
7157	7251			6923	6291	6911	7019	7711
7159	7279			6925	6293	6957	7035	7715
7181	7281			6931-6936	6295	6961	7036	7970
7182	7993			6941	6297	6963	7037	7983-7984
				6949	6299	6969	7039	7896
					6471-6478	6971	7041	7992
					6481	6973	7044	7994
					6489	6977	7047	7999

- Rents (Type 1):

Rental and leases of land, buildings, homes, offices, conference rooms, motor vehicles and office equipment.

- Royalties (Type 2):

Royalties have been paid only by the Universities. Therefore, AFIS does not currently have a Comptroller Object for this income type.

- Other Income (Type 3):

Honoraria, prizes and awards;

Punitive damages paid in cases that do not involve physical injury or sickness;

Any payment that should be reported on Form 1099-MISC that should not be reported in one of the other boxes on the form.



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- Medical and Health Care (Type 6):

Payments to doctors, dentists, optometrists, etc.;

Payments to medical billing services, clinics, hospitals and nursing homes;

Medical payments to persons providing health care services, including proprietary hospitals, physicians and dentists, often include charges for injections, drugs, dentures and similar items. In such cases the entire payment is subject to information reporting.

Note: Payments made solely for drugs or medical supplies are not subject to information reporting.

- Non-Employee Compensation (Type 7):

Maintenance and repair services;

Personal, professional and technical services performed by independent contractors including (but not limited to) advertising, appraisal, architectural, auditing, accounting, computer programming, consulting, cleaning, engineering, laundry, legal, program administration and veterinary.

Note: Travel expenses reimbursed to independent contractors (including speakers) must be added to the contractor's fee and reported if the expenses were not substantiated (original receipts submitted).

VIII. PAYEES AND PAYMENTS - NON-REPORTABLE

A. Non-Reportable Entity Types


- Corporations which do not provide medical service;
- Governmental entities (federal, state, local, county, and special districts);
- Government operated entities;
- Organizations exempt from tax under section 501(a) of the IRS Code.

B. Non-Reportable Payments

- Income specifically required to be reported on a different information return;
- Merchandise, supplies, telegrams, telephone, freight, storage fees, scholarships, substantiated employee reimbursements and fees paid to informants;
- Purchase/lease agreements;
- Registration fees;
- Prompt payment related interest;
- Interest paid on tax-exempt obligation.

Note: The IRS does not require travel expenses paid to independent contractors be reported if the expenses were substantiated (original receipts) to the payer and paid in accordance with the State Travel Policy.

IX. STATEWIDE REPORTING PROCEDURES

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- A. Issuance of Forms 1099-MISC - 1099-MISC payment information (including payment year, paying agency, and payments amounts and types) along with the associated vendor numbers, are retrieved from AFIS and used to create the AFIS 1099 Master File database. Tape agencies produce unique vendor payments that do not record detailed information in AFIS. Each tape agency creates a 1099 payment file which is transmitted to GAO via magnetic tape or file transfer. These files are added to the AFIS 1099 Master File database. From this database, 1099-MISC forms are printed and a magnetic tape is generated to file with the IRS. More detailed information about the 1099 data processing is described in the AFIS Reference Guide.

The GAO files the Forms 1099-MISC using the State's Federal Employer Identification Number (86-6004791). Hard copy forms using the State's Federal Employer Identification Number shall not be mailed to recipients or the IRS by any agency other than the GAO.

Note: All inquiries by the IRS or Department of Revenue should be referred to the GAO.

- B. Recipient Statements - Vendors will receive one Form 1099-MISC from the State of Arizona for the combined amount of reportable payments from all State agencies and universities. This combined amount must be \$600 or greater (\$10 or greater if payments are for royalties) for a Form 1099-MISC to be generated. The statements shall be mailed to the recipients by the GAO no later than January 31 of the year following the reporting year. The State of Arizona, ADOA, Division of Finance will appear as the payer on each form along with address and phone number of the General Accounting Office.
- C. IRS Reporting - The GAO files 1099-MISC reporting information with the IRS on magnetic media no later than February 28 of the year following the reporting year.
- D. Corrected and Prior Years Forms 1099-MISC - The GAO corrects and mails all corrected Forms 1099-MISC, including those for prior years, based upon requests and documentation from individual agencies. Each agency is responsible for verifying all correction requests sent to the GAO. The GAO researches and makes changes due to incorrect TINs, names and addresses based on requests from recipients.
- E. Obtaining the Vendor's TIN (Form W-9) - A W-9 is a form that is used to obtain the vendor's correct name and Taxpayer Identification Number (TIN).

By signing the form, the vendor certifies that the TIN provided is correct, and also that the vendor is exempt from backup withholdings. The vendor is not required by IRS regulations to sign the certification for payments other than interest and dividends, unless the requester has been notified by the IRS that the vendor's TIN was reported incorrectly (B-Notice).

When adding a new vendor, or changing an existing one, agencies must obtain a Form W-9 (or GAO approved Substitute W-9) and enter accurate and complete information in the AFIS Vendor File. This assures compliance with IRS Reasonable Cause regulation which permits the abatement of penalties assessed for reporting incorrect TIN/name combinations. Forms W-9 shall be sent to and retained by the agency that added the record or requested a change based upon a W-9, and must be made available to the GAO when needed for official State purposes.

All agencies shall obtain a completed Form W-9 before adding a new vendor to the vendor file for all non-employees. The GAO may authorize exceptions in certain cases where there is a one-time, non-reportable payment to be made. In these cases, a SSN may be obtained on another written and signed form. An initial solicitation of a vendor's correct TIN must be made and maintained on file by an agency



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at the time an account is opened (when vendor is added to the vendor file) to avoid backup withholding. Mailed or faxed Forms W-9 are acceptable.

All vendors must be properly established in AFIS. If a vendor refuses to provide a correct TIN, contact the GAO. DO NOT add a vendor to the vendor file without a correct TIN.

- F. Backup Withholding and Backup Withholding Notices (B-Notices) - Backup withholdings is the process of withholding 31% of a payment at the time the payment is made. The State (**your agency**) is immediately liable (no notice from the IRS) for instituting backup withholdings if the payee refuses to provide a TIN or the TIN is obviously incorrect (anything other than 9 numerical digits). The State (**your agency**) is also liable for withholding if notified by the IRS that a 1099 was filed with a missing or incorrect TIN. This applies even if the payments are less than \$600 per year.

The GAO will issue B-Notices to all vendors listed on IRS CP2100 Notice (notification of incorrect taxpayer TIN/name combination reported on Forms 1099-MISC) within 15 business days of the date on the IRS CP2100 Notice.

If a vendor responds to the B-Notice by furnishing the correct TIN/name combination on a signed and dated Form W-9, corrections to the vendor file are made by the GAO. If the vendor was paid by a tape agency, the GAO notifies the paying agency of the correct TIN/name combination. The agency making the payments is responsible for correcting the independent vendor file.

If a vendor fails to furnish the correct TIN/name combination on a signed and dated Form W-9 to the GAO within 30 days of the date on the CP2100 Notice, all vendor mail codes in the AFIS vendor file having an exact match of the incorrect TIN/name combination are 'inactivated' until the signed and dated Form W-9 is received. Tape agencies are responsible for inactivating such vendors in their independent vendor files until the signed and dated Form W-9 is received. Payments furnished to vendors without a correct TIN/name combination are subject to backup withholding. Contact the 1099 Coordinator at the GAO.

Miscellaneous or otherwise fictitious vendor numbers shall not be used to pay 1099-MISC reportable payments to reportable payees.

- G. Foreign Vendors - Foreign vendors are set up in the Vendor File exclusively by the GAO. The GAO creates a unique vendor number for the foreign vendor. Foreign entities are not 1099-MISC reportable payees.
- H. Classifying Payments Properly - The GAO will define the appropriate expenditure Comptroller Objects as 1099-MISC reportable on the Comptroller Object Profile (Screen D10) in AFIS. Agencies are responsible for determining and using the correct transaction codes and Comptroller Objects when paying a claim. Contact your GAO liaison if you have any questions in this area.
- I. 1099-MISC Information Retention - The GAO shall retain a copy of all Forms 1099-MISC filed with the IRS and **each agency must have the ability to reconstruct the payment detail** that was reported on the forms for a period of three years following the reporting due date.
- J. Confidentiality and Non-Disclosure of Returns and Return Information - **TINs that are obtained or maintained by State agencies for information return reporting purposes shall be confidential, and no officer or employee of the State who has or had access to these numbers shall disclose TINs in any manner without written authorization from the taxpayer. [Internal Revenue Code §7213(a)]**



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It is unlawful for any officer or employee of the State, or any officer or employee, to willfully disclose any return or return information without written authorization from the taxpayer. [Internal Revenue Code § 7213(a)]

X. PENALTIES

- A. The penalty for failure to provide correct payee statements to the recipient is \$50.00 per return. The penalty applies for failure to send the 1099-MISC to the recipient by the January 31 deadline, failure to include all information required to be shown on a return or for including incorrect information on the return. There is no reduction in the penalty for correcting the return by August 1.
- B. The penalty for failure to file correct information with the IRS by the February 28 deadline is based upon when the correct information is filed, as shown in the following table:

PENALTY	WHEN APPLIED
\$15 per return	If filed correctly within 30 days of the due date.
\$30 per return	If filed correctly more than 30 days after the due date, but by August 1.
\$50 per return	If filed correctly after August 1 or if the required return was not filed.
At least \$100 per return with no maximum penalty	For failure to file a correct information return with the IRS due to intentional disregard.



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