

1099 Reporting

Revised February 12, 2001

General Information

Federal regulations require that Form 1099-MISC be sent to each person or company, other than corporations, to whom we have paid at least \$10 in royalties or at least \$600 in rents, services (including payment for parts and materials), prizes and awards, legal services or medical and health care payments. The exemption for issuing 1099s to corporations does not apply to medical corporations for payments of medical or health care services (Select 1=MHCORP) nor to legal corporations for payment of legal services (Select 1=LGCORP). Gross proceeds paid in connection with legal services should be reported regardless of amount. IRS has determined that parts and materials do not have to be reported if the vendor is in the business of selling parts or materials, such as a dealership; this applies to many of our vendors.

Backup withholding must also be reported on Form 1099-MISC for each person from whom Federal income tax was withheld under the backup withholding rules regardless of the amount of the payment.

Scholarship and fellowship payments are not 1099 reportable since all "working" scholarships and fellowships are processed through our payroll office. Other types of scholarships are not reportable by Radford University.

Foreign individuals and companies will be reported on IRS Form 1042S when appropriate.

Vendors who are not 1099 reportable include:

1. Federal and State of Virginia agencies (noted in the Select 2 field as "G"),
2. Vendors who have indicated that they are tax exempt (noted in the Select 1 field as EXEMPT),
3. Corporations with exceptions as mentioned (noted in the Select 1 field as CORP),
4. Foreign individuals and companies (for tracking purposes "CC" these service-only payments, adjustments will be made at the end of the year) and
5. Limited liability companies filing as corporations (LLCORG in the Select 1 field).

Vendors who are reportable include:

1. individuals (non-employees),
2. sole proprietors (including doctors and attorneys),
3. partnerships,
4. limited liability companies filing as partnerships, (LLPART in the Select 1 field),
5. medical and healthcare corporations (for services rendered),
6. trusts and estates and
7. legal corporations (for services and/or gross proceeds).

1099 payments are flagged during the payment process and are automatically retrieved at the end of each calendar year via the accounting system.

Departmental Responsibilities

Accounting Support Services

Before a department can enter a purchase request to a new vendor into the accounting system, a vendor number must be assigned. The Accounting Support Services Office assigns these numbers and requests that the departments obtain TINs and company status. For requests related to individuals, social security numbers are

required before PEIDs are assigned. If a vendor reaches the payment process before a TIN is obtained, the Accounts Payable Office will notify the Accounting Support Services Office who will obtain the TIN and company status by phone. The Accounts Payable Office then processes the payment document.

All requests for PEIDs for nonresident aliens and foreign companies should be reported to the Tax Compliance Manager for approval.

Financial Reporting Office

The Financial Reporting Office (FRO) is responsible for obtaining W-9 certifications, reviewing and reporting 1099 payments (Procedures for Obtaining [Form W-9](#) on file in FRO). All vendors are sent a request for W-9 certification that indicates appropriate taxpayer identification number(s) and backup withholding status. Vendors established solely for reimbursements, cash receipts, candidates for positions, board of visitors, etc., are not sent a request for W-9 certification. If their status changes to a potential 1099 vendor, then appropriate steps are taken to obtain W-9 certification. When is it necessary to obtain W-9 forms from the Board of Visitors due to per diem payments, the Vice President for Business Affairs' office will solicit the forms. FRO places an "X" in the Ownership Field on the PEID screen when notified by the Accounts Payable Office that a first payment needs to be made and no W-9 has been received. An association screen is created or updated indicating that a W-9 request letter has been sent to the vendor. When advised of a second payment, FRO sends a second request and updates the association screen accordingly. FRO removes the "X" from the PEID database and updates the association screen upon receipt of the W-9 certification. A listing of mailed letters is maintained in the Financial Reporting Office.

The American Express report of potential vendors and payments will be reviewed periodically throughout the year and at the end of each year to verify reportable payments. When 1099 vendors are identified, W-9 certifications will be requested.

A report of potential 1099 vendors is generated and reviewed close to year-end for compliance with IRS regulations. FRO verifies that each vendor has a W-9 certification on file or if missing, requests a W-9 from the vendor. All correspondence sent to vendors is referenced on the association screen and used as proof of due diligence as required by IRS.

Periodically, the FRO randomly selects accounts payable batches to monitor for accuracy. Corrections are made in the Open Hold database when necessary at year-end. This office provides assistance throughout the year when questions arise concerning 1099 vendors and provides training sessions as needed.

The FRO will determine the appropriateness of backup withholding, calculate the 27% payment, and notify Accounts Payable. Also, this office handles all IRS questions including report CP2100, Report of Invalid Taxpayer Identification Numbers.

The FRO is responsible for gathering and processing 1099 Information Returns (detailed instructions for year-end processing are on file). FRO will request outstanding credit memos from Accounts Payable, the Library and Dining Services at the end of each year.

Purchasing

Before a purchase order number (excluding DPOs) is assigned to a purchase request, the Purchasing Department will verify that a TIN is in the PEID database, otherwise, they will obtain the required information before issuing a purchase order number.

Accounts Payable

All payments processed through the Accounts Payable Office must be reviewed for possible 1099 reporting. Payments are reviewed for accurate and 1099 reportable object codes. Attached is a listing of 1099 reportable object

codes with appropriate exceptions. If the payment includes services and materials and the vendor is 1099 reportable, then the payment should be split coded. Only the portion for services should be coded as a 1099 payment. Freight associated with the purchase of supplies and/or equipment is not reportable as a 1099 payment. However, an excessive amount charged for freight should be reviewed for 1099 reporting.

If the payment is 1099 reportable, then the vendor information on the PEID screen is checked for company status. If the company status in the Select 1 field is "CORP" (with exception for legal services noted below) or "EXEMPT" or the DOA indicator in the Select 2 field is "G", the payment is not 1099 reportable, otherwise, the payment should be coded as a 1099 payment. It should be noted that a vendor with a "NONPROF" (Nonprofit) status is not necessarily tax exempt. Only vendors with an "EXEMPT" status are known to be non-reportable. When a 1099 vendor has been identified, this office also verifies that a Form W-9 has been received, otherwise, notice is given to the Financial Reporting Office. See Attachment A for a listing of "Relate To" codes used for 1099 payments.

Beginning in 1998, payment for legal services to corporations must be coded as a 1099 payment. Attorney's fees are to be coded **CC**, however, where payment for legal services, such as a claim settlement, does not identify attorney's fees, the total amount paid (gross proceeds) must be coded **AF**. The FRO will identify legal corporations and will change "CORP" to "LGCORP" when determined. Legal payments are identified by the object code 1243. If legal corporations are identified by Accounts Payable and the vendor is listed as "CORP", notify either FRO and Accounting Support Services to make a change to "LGCORP".

Medical type payments are first identified by object code then by vendor. "MHCORP" in the Select 2 field indicates a medical corporation. All payments to medical corporations for medical services should be coded with a **MH** relate-to code. If an object code for medical type services is identified and the vendor is listed as a CORP, then the Accounting Support Service Office or Financial Reporting Office should be notified to change the vendor to MHCORP and the payment should be coded **MH** in the relate to field. Payments to medical corporations for teaching classes and other non-medical type payments are not 1099 reportable.

Petty Cash payments should be treated the same as other payments. When the initial payment to the individual vendors is made, the payment should be coded as a 1099 payment. When the reimbursement voucher is processed, no 1099 coding is necessary.

When payments from service accounts are made, the payments must be reviewed for 1099 reportable items. These payments are not coded with the usual object codes, therefore, they require special attention to be sure 1099 payments are flagged.

When payments to consultants and contractors include reportable services and reimbursement of itemized expenses, the services are 1099 reportable (excluding CORP and EXEMPT vendors) and must be coded as such. The reimbursement of expenses under the IRS accountable plan is not 1099 reportable; therefore, split coding of the payment may be necessary. The accountable plan requires information to be submitted to the payor sufficient to enable the payor to identify the specific nature of each expense and to conclude that the expense is attributable to the payor's business activities. In other words, they must identify each reimbursed expense separately on the invoice and it must be a reasonable expenditure and amount.

Departments frequently ask for checks to be issued prior to performance of services for hand-delivery at end of performance. This practice is usually not a problem unless the date the check is issued and the date the services are performed cross over the calendar year. Special care should be given during the month of December to ensure that payments are made for services performed in the current calendar year. Due dates should be used which allow for proper 1099 reporting (due dates should be the same year that services are performed).

28% backup withholding must be deducted from 1099 reportable payments to a vendor who:

1. has refused to provide the university with their TIN, or
2. the vendor fails to certify, under penalties of perjury, that the TIN provided is correct, or

3. the vendor fails to certify, under penalties of perjury, that they are not subject to backup withholding and
4. for whom the university has received notice of an incorrect TIN by IRS.

The balance can then be submitted for direct payment to the vendor and the backup withholding portion must be paid to a federal depository institution such as SunTrust Bank. Departmental and object codes will be the same for both payments, however, the "relate to" field for the backup withholding should be coded **FW**. Note in the description field, "Backup Withholding Taxes \$XX.XX." Notify the Financial Reporting office if backup withholding is an issue. Instructions for processing backup withholding can be found in the CAPP Manual, Section 20320.

The Accounting Support Services office should be the only office creating PEIDs for nonresident aliens and foreign companies. If this type of request comes from a department or a request for payment reaches the Accounts Payable Office with or without a PEID, notify the Tax Compliance Manager. These payments may be reportable on IRS Form 1042-S and are coded the same as 1099 payments. Payments to nonresident aliens should not be processed until approved by the Tax Compliance Manager. The Financial Reporting Office will remove the 1099 coding from these payments and notify the Tax Compliance Manager at the end of each year. It is possible that tax should be withheld from the initial payment.

All 1099 and 1042-S payments must be flagged when the data entry is performed and before distribution to the accounting system. The appropriate "Relate To" codes are used to indicate which type of payment is being processed (see attached list). At the time of data entry, these codes are entered in the "Relate Field." If a 1099 or 1042-S payment is not entered as mentioned above, then a direct update to the accounting system in "Open Hold" by the Financial Reporting Office can be performed at year end. A copy of the transaction should be submitted to the Financial Reporting Office with a note of explanation.

Outstanding credit memos as of December 31, received against 1099 payments, must be reported to the Financial Reporting office by the second week in January of the following year.