

A decorative graphic on the left side of the slide features three balloons: a green one at the top, a light blue one in the middle, and a purple one at the bottom. Each balloon is attached to a streamer and has several yellow triangular shapes radiating from it, resembling a sun or a party decoration.

Form 1099 Reporting for Federal Agencies



Agenda

- Information Returns
- Overview of the 1099 Process
- Forms W-9
- Forms 1099
- Backup Withholding
- Forms 945



Information Returns



Overview of the 1099 Process

- **Solicitation of Form W-9**
- **Keeping Track of Payments to Vendors**
- **Backup Withhold from Vendor Payments, if Necessary**
- **Issue Forms 1099**
- **File 945 if Backup Withholding was Required**

Form W-9 If Vendor Info is not on Commercial Contractor Registration

- **Request for Taxpayer Identification Number and Certification**
- **Name Should Match Taxpayer ID No. (TIN)**
- **Entity Type Shows Whether Exempt**
- **TIN is Essential**
- **Penalties of Perjury Certification**
- **Ask Vendor to Sign W-9**
- **Substitute Form is Permissible**

Payee's Name Corporation

- Corporations are separate entities from the owners.
- Payments made to John Brown require a 1099.
- Payments made to John Brown Inc. require a 1099 from a Federal executive agency





Tracking Vendor Payments

- **Total \geq Threshold, Issue 1099**
- **Combine Payments of all Departments**
- **Method is Taxpayer's Choice**



Applicable Forms 1099

- **1099-C Cancellation of Debt**
- **1099-INT Interest Income**
- **1099-MISC Miscellaneous Income**



What is a 1099-MISC information return?

- **Form required to report payments for:**
 - **Services, or,**
 - **A combination of services and products**

What payments must be reported?

- **Payments of \$600 or more for the year**
- **Paid in the course of your trade or business**
- **Payments to corporations**



Examples of Payments

- Nonemployee compensation
- Commissions
- Fees
- All forms of remuneration for services rendered
- Prizes & awards
- Royalties (\$10 or more)
- Rents
- Medical and health care payments



Report Nonemployee Compensation in Box 7

- **Reportable Payments of \$600 or more to:**
 - Individuals
 - Partnerships
 - Corporations
- Paid for services of a person who is not your employee
- Payments made in the course of your trade or business

Reportable payments include:

- Commissions,
- Fees for services,
- Fee splits between professionals,
- Referral fees,
- Director fees, etc.

General Exemptions to Filing Form 1099-MISC

Payments only for merchandise

- **Examples:**
 - Office supplies
 - Cleaning supplies
 - Products purchased for resale
- **Still report payments predominantly for services, even including parts**
 - Rev Rul 81-232 – Report total payment
 - Proposed revenue procedure may allow categories for determining reporting requirement

General Exemptions to Filing Form 1099-MISC

- **Payments for**
 - **Telegrams**
 - **Telephone**
 - **Freight**
 - **Storage**
- **Payments of rent to real estate agents acting as an agent for the owner**

General Exemptions to Filing Form 1099-MISC

Payments to Exempt Entities

- Tax-exempt entities under IRC § 501(a)
- Governments
 - United States
 - State
 - District of Columbia
 - Possession of the United States
 - Political subdivision, agency or instrumentality of the above
- Commercial Contractor Registration or W-9 should show if entity is exempt

General Exemptions to Filing Form 1099-MISC

Wages paid to employees

- All compensation, cash or noncash, must be reported on Form W-2
- Subject to all applicable Federal employment taxes

- **Business travel allowances paid to an employee under a nonaccountable plan**
 - Report on Form W-2
 - Subject to all applicable Federal employment taxes

Taxable/ Nontaxable Reportable/ Non-reportable

Expense Reimbursements

- If made under accountable plan, not taxable or reportable
- If not made under accountable plan, taxable and reportable

Accountable Plan

- Business connection
- Adequate “accounting” by employee in reasonable time
- Excess reimbursement returned in a reasonable time



Form 8596 Federal Contract Info Return

- **Required of Federal executive agencies for contracts > \$25,000**
- **Agency must file 8596 even if contract is made through:**
 - **Small Business Administration**
 - **General Services Administration**
 - **Veterans Administration**
- **If required to submit same info to FPDC you can elect to have FPDS file 8596**

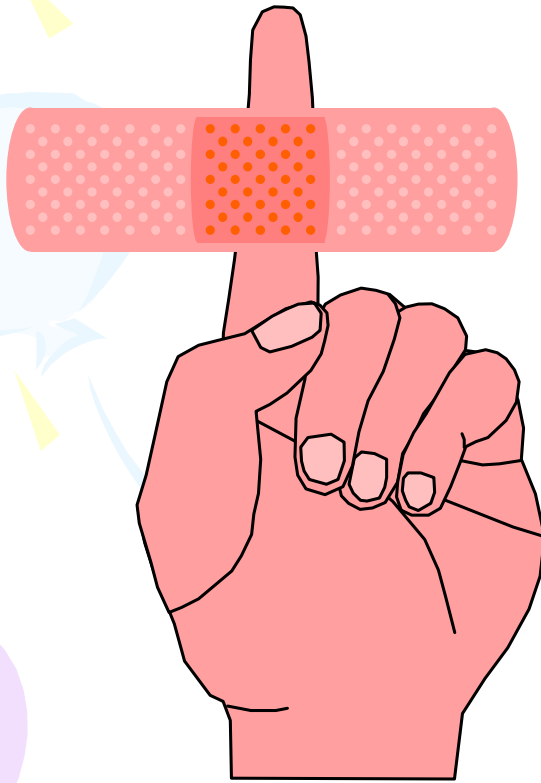
Contract Exceptions to 8596 Filing Requirement

- **\$25,000 or less**
- **All payments made w/ in 120 days of contract action**
- **License granted by Federal agency**
- **Obligation of non-Federal agency contractor to subcontractor**
- **U.S. Government debt instrument (T-bills, savings bonds, etc)**
- **Federal agency obligation to lend money, lease property to someone, or sell property**

Contract Exceptions to 8596 Filing Requirement

- **Blanket purchase agreement formed (purchases under BPA must be reported on 8596)**
- **With contractor acting in capacity as a Federal agency employee**
- **With Federal, state, local, foreign government or subsidiary agency**
- **With person not required to have Taxpayer ID No. (nonresident alien, foreign corp., or foreign partnership not having income connected with business in U.S.; has no office or agent in U.S.)**
- **Confidential/ Classified meeting Code § 6050M(e)**
- **All payments made after 120th day after contract action will be made by someone other than Federal agency or its agent**
- **Entered into using non-appropriated funds.**

Medical and Healthcare Payments



- Report payments of \$600 or more in Box 6
 - Report payments to all individuals, partnerships, and corporations
 - Medical payments include doctor fees, drug testing, lab fees, physical therapy, etc.
- * *Do not report payments to pharmacies or tax exempt hospitals*



Attorneys

- **If not employees they receive 1099-MISC for legal services whether:**
 - **Sole Proprietor**
 - **Partnership**
 - **Corporation**
- **Attorneys receiving 1099-MISC should not be in pension plan; this means they are employees**

Defining Gross Proceeds



- **Gross proceeds are the payments made to an attorney as part of a legal settlement or court order**
- **Gross proceeds may be issued in the names of the attorney and the client**
- **Gross proceeds may include an amount for the attorney's services**

Reporting Gross Proceeds

- If you cannot determine the attorney fees, report all of gross proceeds in Box 14



Reporting Gross Proceeds



- If you can determine the amount of attorney fees included in the gross proceeds:
 - Report the fee in Box 7
 - Report nothing in Box 14

Reporting Payments to Foreign Persons

“Foreign person” includes:

- **Nonresident alien individual**
- **Foreign corporation or partnership**
- **Foreign trust or estate**
- **Foreign government**
- **Foreign branch of a U.S. financial institution if the foreign branch is a qualified intermediary**
- **Any other person that is not a U.S. person**




Reporting Payments to Foreign Persons

Subject to 30% withholding on U.S. source income

Treaty with country of residence may provide reduced rate or exemption

U.S. Taxpayer ID Numbers for Foreign Persons

- Request payee provide U.S. Taxpayer ID No. (TIN)
- If person is eligible for, but doesn't have, Social Security Number, use SS-5 to get one

- 
- **If person is not eligible for SSN, apply for individual taxpayer ID No. (ITIN) using W-7**
 - **Any person other than individual who is an employer or is engaged in U.S. business uses SS-4 to get an employer ID No. (EIN)**

ID Exceptions -- Payments to Foreign Persons

Income from marketable securities

- **Dividends & interest from actively trade stocks & debts**
- **Dividends from mutual fund**
- **Dividend/ interest/ royalties from registered unit investment trust**

Unexpected payment to an individual

- **Nonresident alien must receive unexpected payment**
- **Payer cannot reasonably delay making the payment**
- **IRS authorized Payer to help aliens get expedited ITIN**
- **IRS is not issuing ITINs when payment is made**
- **Payer submits W-7 for payee 1st business day after pmt**

Reporting Payments to Foreign Persons

To claim exemption or reduced rate, payee submits Form W-8 to:

- Establish foreign status
- Claim beneficial owner of income received
- Claim reduced rate or exemption under income tax treaty

Reporting Payments to Foreign Persons

Report payments and withholdings on Form 1042-S for:

- Interest, dividends, royalties
- Pensions and annuities
- Gambling winnings
- Compensation for personal services

Report total withholdings annually on Form 1042

Info Sources for Reporting Payments to Foreign Persons

- **Pub 515 Withholding of Tax on Nonresident Aliens and Foreign Entities**
- **Pub 901 U.S. Tax Treaties**
- **Instructions for Form 1042-S Foreign Person's U.S. Source Income Subject to Withholding**
- **Instructions for the Requester of Forms W-8BEN, W-8ECI, W-8EXP and W-8IMY**



Info Sources for Reporting Payments to Foreign Persons

Internal Revenue Service

International Section

2970 Market Street

Philadelphia, PA 19104

(267) 941-1000 (6 a.m.–2 a.m Eastern)



When to File Forms 1099-MISC

- **Report payments on calendar-year basis**
- **Provide copy of Form 1099-MISC to recipient by Jan. 31 of the following year**
- **File with IRS by Feb. 28 of the following year**
- **Use Form 1096 transmittal form to submit Forms 1099 to IRS**





Common Errors Preventing “Correct” or “Required” Information Returns

- **Failure to obtain identifying information before making payment** (use Form W-9)
- **Failure to aggregate payments from all expense categories** (use vendor files)



Common Questions

- **What if a vendor provides service part of the year under one TIN then provides the remainder under another?**
 - **Depends on W-9 entity info**
 - **If sole proprietor gave SSN & now gives EIN without change of entity type, use SSN, put individual's name on 1st line of 1099 and business name on 2nd line.**
 - **If changing from sole proprietor to corporation or if company has changed hands, issue separate 1099s.**
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Common Questions

- **What if a vendor is exempt and I inadvertently sent a 1099?**
 - **Prepare a new 1099**
 - **Enter “X” in the “CORRECTED” box**
 - **Enter payer, recipient, and account no. exactly as it appeared on the original incorrect 1099**
 - **Enter zero money amount in correct box**



Common Questions

- **Where do I send the information returns?**

- **Internal Revenue Service Center listed for your area on the Form 1096 Instructions (250 or more magnetic media)**



Common Questions

- **Can I file an extension to file Forms 1099?**
 - **Yes! Send Form 8809 to the address shown by Jan. 31 for a 30 day extension.**



Common Questions

- **What if I can't get a Form W-9 or the Form W-9 information from the recipient?**
 - **Backup withholding applies.**
- **How long do I keep copies of information returns?**
 - **Three years from the due date, unless backup withholding applies (4 years).**



Common Questions

- **Can I use photocopies of Forms 1099?**
 - No. You can get official forms at IRS offices or by calling 1-800-TAX FORM
- **How about substitute Forms 1099?**
 - Yes, if they meet the requirements of Publication 1179



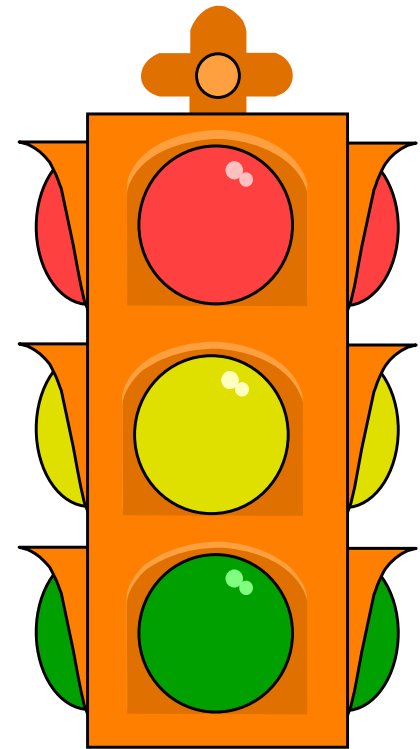
Backup Withholding

**Income tax withholding at the source
for non-payroll types of payments
and compensation**

Is Backup Withholding Required?

If you make reportable payments to persons (or corporations) who have not furnished their valid TIN

- The withholding rate is 28% (2011)
- Backup withholding applies to many payments reported on Form 1099-MISC, some are:
 - Box 1 = rents (surface royalties)
 - Box 2 = royalties
 - Box 7 = nonemployee compensation



When to Begin Backup Withholding

- Backup withholding begins when aggregate payments for the calendar year equal or exceed \$600* , or
- Immediately if:
 - Payee was paid more than \$600 in prior year and an information return was issued, or
 - Payee was subject to backup withholding in the prior year
- * \$10 for Dividends and Interest





How to Report Backup Withholding

- **Report withholding to payee and to IRS in Box 4 of Form 1099-MISC**
- **Form 945 is used to report and pay backup withholding to the IRS.**
 - **This is an annual return, due 1 / 31 / xx**
 - **ordinary deposit rules apply**
 - **make Form 945 deposits separate from Form 941 deposits**

Benefits of TIN Matching

- Register for IRS TIN Matching through IRS e-services
<http://www.irs.gov/taxpros/article/0,,id=109646,00.html>
- If you have questions call our **e-services helpdesk @ 1-866-255-0654**, M-F 7:30 a.m. to 7:00 p.m., EST,



Benefits of TIN Matching

- Offered to authorized Payers / filers of 1099 information reporting returns subject to BWH (Forms 1099-B, INT, DIV, OID, PATR, and MISC).
- Interactive TIN Matching - can match up to 25 payee TIN and name combinations.
- Bulk TIN Matching - to match up to 100,000 TIN and name combinations.



Benefits of TIN Matching

Using the Central Contractor Registry (CCR) for TIN Matching:

- www.ccr.gov
- CCR TIN Matched to IRS Records as of 10/2007
- DUNS number is Public information, an EIN is NOT
- Many DUNS may fall under one EIN

Verifying TINs - Check It Out !

- You may verify
 - Up to 5 SSNs by calling the SSA at 800-772-1213 *or* 800-772-6270 7am-7pm
 - Up to 50 by writing the SSA local office
 - More than 50 faxing 410-966-3366 or 410-966-9439
 - 6 or more at www.ssa.gov/employer/evs2000.html
- For problem SSNs, call the Employer Verification Hotline at 410-965-7140
- Examples of invalid SSNs:
 - Beginning #'s 8xx or 9xx or above 728
 - Middle or ending numbers - all 0's



For More Information

- **Instructions for Forms 1099, 1098, 5498, & W-2G**
- **Internal Revenue Code Sections 6041 thru 6053**
- **Publication 1281 – Backup Withholding on Missing and Incorrect Name/ TINs**
- **Publication 1179 – Rules & Specifications for Private Printing of Substitute Forms 1096, 1098, 1099, Series 5498 & W-2G**

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Questions?