



## Accounting and Administrative Manual

### Section 100: Accounting and Finance

**IRS Form 1099-MISC Procedures**  
No.: E-01

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#### Purpose and Scope:

To provide guidelines for accounting and reporting vendor payments subject to Internal Revenue Service (IRS) miscellaneous income rules and regulations.

#### General:

Federal regulations require organizations to report certain types of payments to the IRS. The IRS has also established specific rules regarding the solicitation of taxpayer identification numbers (TIN) from payees, backup withholding triggers, vendor payments and withholding requirements.

Generally, the university is required to report payment for services made to any individual or entity other than most corporations (exceptions are listed in the **Reportable Qualifications** section of this procedure), governmental units, or international organizations. Payments to companies, sole proprietorships, estates, trusts, partnerships and individuals are Form 1099-MISC reportable (reportable). In addition, the fair market value of prizes and awards must be reported.

A Form 1099-MISC must be filed with the IRS at the end of the calendar year if the vendor's cumulative reportable payments meet or exceed the IRS reporting threshold for the calendar year. Vendor payments are not reviewed on an individual basis to determine if the payment meets the monetary criteria during the course of the year. After the end of the calendar year, the financial accounting system creates a Form 1099-MISC for each vendor with total reportable payments that meet or exceed the reporting threshold. See the **Current Guidelines** section of this procedure for the reporting threshold established by the IRS applicable to the current calendar year. However, if federal income tax has been withheld under the backup withholding rules, a Form 1099-MISC will be issued regardless of the aggregate total of payments.

When the university hires an individual or entity to perform services, the university is required to track the amount paid to that individual or entity for services rendered. The financial accounting system is not capable of identifying which transactions are reportable based on the use of account codes. The procurement and accounts payable offices share responsibility for determining when a vendor or payment meet the reporting requirements of Form 1099-MISC. Reportability should be considered at all the different review and processing stages within the university's financial accounting system.



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Normally, if the service provider is an employee, the payments must be included on their W-2. However, it is possible for an employee to qualify as an independent contractor for providing services outside the scope of their regular employment. The Statewide Office of Human Resources (SWOHR) makes this determination. As an independent contractor, any services provided are reportable.

#### Taxpayer Identification Number (TIN):

The procurement and accounts payable offices must obtain the vendors' TIN exactly as assigned by the Social Security Administration (SSA) or the IRS. The vendor name in the financial accounting system must be exactly the same as the SSA or IRS records. Each MAU should have a completed Form W-9 or qualified substitute from the vendor in accordance with IRS regulations prior to the set up of a vendor on the financial accounting system.

When there is ambiguity regarding the corporate status, the university may require the individual or entity to provide certification of incorporation via IRS Form W-9 or qualified substitute or a copy of their articles of incorporation. See IRS Form W-9 instructions for the certification procedure.

The university is required by law to initiate backup withholding at the current rate established by the IRS if the vendor is unwilling to provide their TIN through a Form W-9 or a qualified substitute. Backup withholding deducted from a vendors' payment cannot be returned to the vendor, it must be remitted to the IRS. The university could be fined or penalized by the IRS if the vendor is paid without obtaining the TIN, even if the vendor is not in arrears on their income taxes.

The withholding percentage is established by the IRS and may be changed on an annual basis. See the **Current Guidelines** section of this procedure for the current withholding rate established by the IRS.

When the Form 1099-MISC is submitted to the IRS, the name and TIN on the form is compared to SSA and IRS records. Discrepancies are sent to the university on an IRS CP-2100 notice for each calendar year filing of Forms 1099-MISC. For example, if the vendor's name in the IRS records is 'North Start Company' but is entered in the financial accounting system as 'N. Start Co.', a discrepancy will be identified when the IRS processes the Form 1099-MISC. This discrepancy will be included on a CP-2100 notice



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for that calendar year. Discrepancies must be researched following a specific procedure and documentation must be on file to explain any corrections to the university records.

If at least 80% of the services provided will be reportable, the vendor should be set up following the methodology that defaults all transactions processed as reportable. See Attachment 1 for the methodology required in Banner to indicate reportability. This default can be overridden by the accounts payable office when processing a transaction that is not reportable. See Attachment 2 for the methodology required in Banner to remove the flag that indicates reportability.

Reportable payments to vendors set up as not reportable, will require the accounts payable office to follow the prescribed methodology to mark each individual transaction as reportable. See Attachment 3 for the methodology required in Banner to mark the transaction as reportable.

It is the joint responsibility of each MAU's procurement and accounts payable offices to assure the information in the financial accounting systems' vendor files is current and accurate. Vendors should be encouraged to submit current W-9's to assure this is accomplished.

#### W-9 Retention:

W-9's must be kept on file for four (4) fiscal years after the last payment is issued, whether the last payment was reportable or not. Even though one campus may not have conducted business with the vendor in the last four years another MAU may have. In these instances a campus may not want to continue as the holder of the W-9 documentation. Contact the MAU currently doing business with the vendor to determine if they need the W-9(s) on file for their retention. It is advisable to keep photocopies until assurance is received from the other MAU that they have received the W-9 documentation.

#### Reportable Qualifications:

A vendor payment is considered reportable when the criteria detailed both in 1 and 2 below are met and the payment type is not listed in the **Reportable Exclusions** section of this procedure:



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1. Payee is not a corporation, except:
    - a. Medical and health care providers;
    - b. Vendors receiving payment in cash for fish or other forms of aquatic life;
    - c. Attorney's or law firms;
  2. The payment is for one of the types of transactions as described in the **Reportable Payment Types** section of this procedure.

As previously stated, if federal income tax has been withheld under the backup withholding rules, a Form 1099-MISC must be issued regardless of the aggregate total of payments.

#### Reportable Exclusions:

The following types of payments are excluded from the 1099-MISC reporting requirements. However, these payments may be taxable income and the payee should consult with their tax advisor to make that determination.

1. Utilities such as electricity, gas and water.
2. Telephone, telegraph, and similar items.
3. Merchandise, messenger services, reimbursements, freight and storage.
4. Rent payments to a real estate agent.
5. Business travel reimbursements that have been accounted for in compliance with Board of Regents' (BOR) Policy and University Regulations.
6. Scholarship or fellowship grants that do not have a condition that requires teaching, research or other services for receipt of the grant.
  - a. Scholarship or fellowship grants that require teaching, research or other services as a condition for receipt of the grant are considered wages and must be reported on Form W-2. Contact the respective MAU's Human Resources office or the SWOHR for additional information.
7. Payments to a hospital or extended care facility that is tax-exempt.
8. Payments to a hospital or extended care facility owned and operated by the United States (or its possessions), a state, the District of Columbia, or any of their political subdivisions, agencies, or instrumentalities.

The university is required to report all reportable payments made to non-resident aliens (NRA) on Form 1042-S. Internal procedures may vary between MAU's so individuals should contact the person designated at their MAU for information regarding NRA



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procedures. Contact SWOHR if the designated person is not known. SWOHR can also answer questions or provide additional clarification regarding NRA restrictions and requirements.

#### Reportable Payment Types:

There are a number of payment types that are reportable. The following list includes the most common payment types considered reportable. The information provided is not complete and the absence of a specific type of payment is not an indicator that the payment type is not reportable. Contact the Statewide Office of Cost Analysis (SWOCA) for assistance on payment types not listed in this procedure or see the IRS Instructions for Form 1099-MISC.

Gross proceeds to attorney (AT) – Gross proceeds paid to an attorney or law firm in connection with legal services, regardless whether the services are performed for the university.

Medical and health care (MD) – Payments made to physicians, other suppliers or providers of medical or health care services. If the payment(s) are to be made to a corporation, rather than to the individual providing the service, the vendor name should reflect the corporate name, not the individual providing the service for the corporation.

Non-employee compensation (NC) – Includes, but is not limited to, professional service fees, commissions, catering, entertainment, prizes and awards for services performed by a non-employee, honorariums, or other form of compensation for services performed by an individual who is not an employee of the university. Payments made for services to subcontractors, sub-recipients, sub-grantees and sub-awardees. Payment for repairs whether or not the vendor's invoice indicates labor and parts separately. The payment for the parts is not reportable if the parts are invoiced separately.

Amounts paid to employees for excess travel per diem should be included on their W-2's. Contact the respective MAU Human Resources office or the SWOHR for additional information.

Payments made to non-employees for travel per diem amounts in excess of University Regulation are reportable as non-employee compensation. These payments are to be processed as follows:



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1. If original receipts have been turned in, two Banner invoices must be created in the financial accounting system. The first Banner invoice should be a travel invoice, Travel Authorization (TA) or a Travel Expense Report (TER) for the amount that complies with University Regulations and noted as a reimbursement on the Banner invoice description line(s). The second Banner invoice will be for the amount over University Regulation. Do not use a TA or a TER number in Banner. Note it as payment for excess travel per diem on the Banner invoice description line(s) and code the Banner invoice as reportable.
  2. If the non-employee has not turned in original receipts, note on the Banner invoice description line(s) in the financial accounting system the entire amount as a travel allowance and code the Non-TA/TER Banner invoice as reportable.

Prizes & awards, other income (PR) – The fair market value of prizes and awards to non-employees for which no service was required. Payments for all punitive damages, or any damages that are not due to physical injury or physical sickness and liquidated damages paid under the Age Discrimination in Employment Act of 1967. Deceased employee wages paid to their estate or beneficiary is classified as other income.

Information for donated or non-cash prizes and awards is not maintained in the financial accounting system and must be added manually prior to printing the Form 1099-MISC for the calendar year being reported. A list of non-cash and donated prizes and awards from each campus must be forwarded to the SWOCA quarterly as described in the **Non-Cash Benefits, Prizes or Awards** section of this procedure.

Cash & non-cash prizes and awards, except those won as a result of the purchase of a raffle ticket, received by university employees must be included on their W-2's. Contact the respective MAU's Human Resources office or the SWOHR for additional information.

See the sections on **Non-Cash Benefits, Prizes or Awards** and **Non-Cash Benefits, Prizes or Awards Reportable on IRS form W-2G** for the reporting criteria and deadline information.

Rents (RE) – All types of rents such as rental expense paid for office, classroom or laboratory space (unless paid to a real estate agent), lodging expense paid directly to an un-incorporated vendor, pasture or land rentals and machine rentals. If a vendor payment



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for machine rental includes both the use of a machine and operator, prorate the payment between machine rental coded as RE, and the operator portion coded as NC.

Royalties (RY) - Royalties constitute payments for the right to exploit natural resources, such as oil, gas, timber, sand, gravel, and other intangible property such as copyrights, trade names, trademarks, franchises, books and other literary compositions, musical compositions, artistic works, secret processes and formulas, and patents. Report gross payments, before reduction for fees, commissions, expenses, or severance and other taxes withheld.

Some royalties are excluded from this payment type, but not from Form 1099 reporting. For example, surface royalties are classified as Rents (RE), working interest royalties are classified as Non-employee compensation (NC), and report pay-as-cut timber royalties on Form 1099-S.

See Attachment 4 for a quick reference list of reportable payment types.

The two alpha characters in brackets () following the underlined payment type are the codes required to classify the payment type on a reportable transaction. They are called Income Type codes in the financial accounting system.

The Income Type codes mark transactions so they can be summarized into categories used by the IRS to determine whether the vendor has properly reported payments. For example, a vendor record was set up when a rental agreement was established with John Doe. The default payment type on the vendor record is 'RE' which ensures that all rental payments made are coded appropriately. When the accounts payable office processes a payment for reportable repair services performed by this vendor, the transaction must be coded with payment type 'NC'. The IRS will receive a Form 1099-MISC overstating the amount of rents paid if this does not occur. As a result, the IRS may presume John Doe has not properly reported payments received from the university. The vendor may incur additional expenses to correct this error. See Attachment 2 for the methodology required in Banner to change the payment type.

#### Electronic Funds Transfer Vendor Payments:

When a vendor is issued payment from the university via electronic funds transfer (EFT) which meets the criteria as detailed in the **Reportable Qualifications** section of this





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procedure the issuing MAU must notify Statewide Office of Financial Systems (SWOFS). The MAU must provide the following information to SWOFS within two (2) business days after the vendor's EFT payment is issued by Statewide Office of Cash Management:

1. Vendor name (as provided to the IRS and/or SSA)
2. Vendor's Banner ID number
3. Vendor's social security number or TIN
4. Reportable payment amount
5. Date of EFT
6. Banner document code of EFT journal voucher
7. Reportable payment type

#### Non-Cash Benefits, Prizes or Awards:

For the reporting criteria and information deadlines for employee recipients of a non-cash benefit, prize or award **not** due to the purchase of a raffle ticket (or similar device), contact the respective MAU's Human Resources office or the SWOHR.

Each MAU must maintain a data information file regarding recipients of a non-cash benefit, prize or award. This information is to be submitted to the SWOCA on a quarterly basis. Reports are due on the fifth business day after the end of the quarter with the exception of the quarter ending December 31. The report for the final quarter of the calendar year (quarter ending December 31) must be submitted by the third Friday in December of each calendar year to SWOCA. A report detailing activity that occurred between the third Friday and the end of the month for December is due on the third business day of the following month (January). Each MAU may establish their own internal deadlines to ensure these quarterly reporting deadlines to SWOCA are met. The quarterly reports submitted by the MAU's to SWOCA are to contain the following information:

1. Date non-cash benefit, prize or award was granted
2. Brief description of benefit, prize or award
3. Fair market value of benefit, prize or award
4. Recipient's name (as provided to the IRS and/or SSA)
5. Recipient's mailing address
6. Recipient's Banner ID number (if applicable)
7. Recipient's social security number or TIN





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8. Recipient's phone number (if available)
  9. US Citizen (Yes or No)

#### Current Guidelines:

The current IRS backup withholding rate is 28%. The IRS reporting threshold is \$600 or more for all reportable payment types with the following exceptions:

1. The reporting threshold for royalty payments is \$10 or more.
2. There is no reporting threshold for the gross proceeds paid to attorneys so all payments are reportable.
3. There is no reporting threshold for fishing boat proceeds so all payments are reportable.

This procedure will be reviewed annually and updated if IRS regulations change.

#### Non-Cash Benefits, Prizes or Awards Reportable on IRS form W-2G:

Recipients of a non-cash benefit, prize or award due to the purchase of a raffle ticket (or similar device) that meets the IRS reporting threshold will be issued an IRS form W-2G. The reporting threshold for form W-2G is calculated separately from the form 1099-MISC threshold. The value of a single raffle ticket is necessary to determine if the reporting threshold for IRS form W-2G has been reached. The threshold is defined as any non-cash benefit, prize or award whose value is \$600 or more provided the non-cash benefit, prize or award is at least 300 times the amount of the value of a single raffle ticket (or similar device). Note that employees that are recipients of a non-cash benefit, prize or award due to the purchase of a raffle ticket (or similar device) must be included in the listing described below and should **NOT** be reported to SWOHR. This type of non-cash benefit, prize or award must be reported on IRS form W-2G not on the employee's W-2.

Each MAU must maintain a data information file regarding recipients of a non-cash benefit, prize or award due to the purchase of a raffle ticket (or similar device). This information is to be submitted to the SWOCA on a quarterly basis. Reports are due on the fifth business day after the end of the quarter with the exception of the quarter ending December 31. The report for the final quarter of the calendar year (quarter ending December 31) must be submitted by the third Friday in December of each calendar year.



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to SWOCA. A report detailing activity that occurred between the third Friday and the end of the month for December is due on the third business day of the following month (January). Each MAU may establish their own internal deadlines to ensure these quarterly reporting deadlines to SWOCA are met. The quarterly reports submitted by the MAU's to SWOCA are to contain the following information:

1. Date non-cash benefit, prize or award was granted
2. Brief description of benefit, prize or award
3. Fair market value of benefit, prize or award
4. Recipient's name (as provided to the IRS and/or SSA)
5. Recipient's mailing address
6. Recipient's Banner ID number (if applicable)
7. Recipient's social security number or TIN
8. Recipient's phone number (if available)
9. Recipient's contribution - the value of a single raffle ticket, etc.
10. US Citizen (yes or no)

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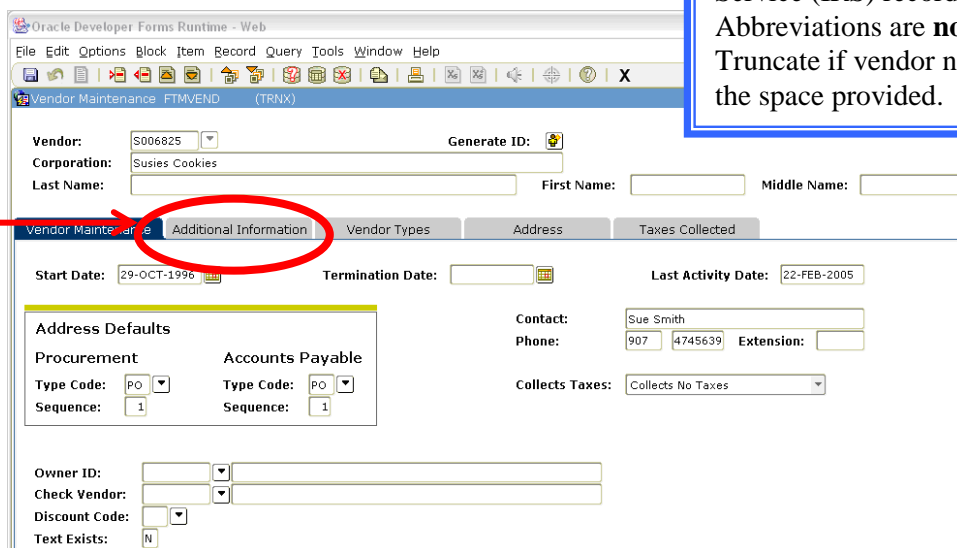
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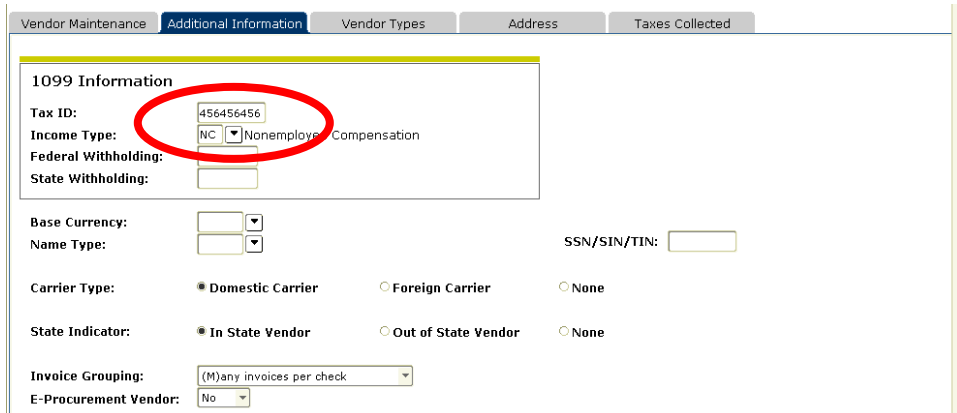
**Attachment 1**

**Banner Screen: FTMVEND**

The Vendor's name must match the Social Security Administration (SSA) or the Internal Revenue Service (IRS) records **EXACTLY**. Abbreviations are **not** allowable. Truncate if vendor name exceeds the space provided.



Click on “Additional Information” tab to input the 1099-MISC vendor information.



Click the arrow in the Income Type field to view a listing of the valid codes



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#### Attachment 2

##### Banner Screen: FFAINVE for a Vendor setup as Reportable

Note, the **1099 Tax ID** field reflects the information from **FTMVEND** on the **Header** of form **FAAINVE**. The **1099 Vendor** box is also checked for this vendor.

When processing payment for non-reportable items to a vendor set-up as reportable, clear all three fields (**1099 Tax ID** and **1099 Vendor** check box on the **Header** and the **Income Type** field on the **Additional Info** screen) in **FAAINVE**. Note that reportable and non-reportable items must be on separate invoices.

Document: 10970360 Multiple General Encumbrance  
Encumbrance: 163607  
Vendor: S006825 Susies Cookies

Invoice/Credit Memo Header: FFAINVE (TRNX)

Invoice Date: 20-MAR-2001 Transaction Date: 20-MAR-2001 Document Accounting  
Check Vendor:

Address Code: PO Sequence Number: 1  
Address Line 1: 456 Sugar Ln  
Address Line 2:  
Address Line 3:  
City: Sugarland  
State or Province: AK  
ZIP or Postal Code: 99874  
Nation:  
Collects Tax: N COLLECTS NO TAXES

Discount Code:  
Payment Due: 20-MAR-2001  
Bank: SC FNBA Checking for Statewide  
Vendor Invoice:  
Disbursement Status: N  
1099 Tax ID: 456456456  
☒ 1099 Vendor

From the menu bar choose Option/Header Additional Information to reveal the Income Type that will default from FTMVEND. Change the code if the payment is a different type than the default. See Attachment 4 for a reference list of reportable payment types.

Additional Information: FFAINVE (TRNX)

Tax Group:  
Currency:  
Disbursing Agent:  
Income Type: NC Nonemployee Compensation

Additional Check Vendor Information

Carrier Route: Delivery Point: Correction Digit:

Close



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#### Attachment 3

##### Banner Screen: FFAINVE for a Vendor NOT setup as Reportable

A vendor to receive a reportable payment, that was not setup as reportable in **FTMVEND**:

1. Enter the vendor's TIN in the **1099 Tax ID** field.
2. Turned on the **1099 Vendor** check box. ( "✓" ).

3. From the menu bar choose Option/Header Additional Information to reveal the Income Type field. Enter the appropriate code in **Income Type** field that reflects the kind of service provided. See Attachment 4 for a reference list of reportable payment types.



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#### Attachment 4

##### Reference List of IRS 1099-MISC Reportable Payments

The information listed below includes the most common types of reportable payments. The list is not complete and absence of a specific type of payment is not an indicator that the payment type is not reportable. See the IRS Instructions for Form 1099-MISC for additional examples or information on other payment types not listed. Contact Statewide Office of Cost Analysis with questions or for additional information.

Reportable Payment Type (XX)	Example
Crop insurance proceeds (CP)	Crop insurance proceeds paid for loss of crops
Fish purchases (NC) – Fish purchases paid in cash for resale	Purchasing fish for resale as part of a trade or business
Fishing Boat Proceeds (FB) – Payments to crew members by owners or operators of fishing boats including payments of proceeds from sale of catch	Proceeds from sale of catch from fishing boat
Gross Proceeds Paid to Attorneys (AT) – Gross proceeds paid to an attorney or legal firm in connection with legal services	Gross proceeds paid to an attorney or legal firm as part of a settlement agreement
Legal Services (NC) – Payments for professional legal services performed by an attorney or legal corporation	Fees paid to an attorney for legal work.
Medical and Health Care (MD) – Payments to physicians, physicians' corporation, or other supplier of health and medical services	Payments to a physician for Workers Compensation related medical payments.
Non-employee compensation (NC) – Payments for services performed for a trade or business by people not treated as its employees.	Professional service fees for accountants, architects, contractors, subcontractors; honorariums. Prizes and awards for services performed by a non-employee. Amounts paid to non-employees for travel per diem in excess of BOR policy.
Prizes and Awards, Other Income (PR) – Prizes and awards to non-employees that are not for services	FMV of prize from a raffle; travel awards
Rent (RE) – All types of rents.	Office, classroom, laboratory space rental, lodging and machine rentals.
Royalties (RY) – Royalty payments	Royalties paid by a publisher directly to an author or literary agent or by a literary agent to an author.



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#### Attachment 5

#### 1099-MISC Official Mailing Address

Vendor Maintenance FTMVEND (TRNX)

Vendor: S006825 Generate ID:

Corporation: Susies Cookies

Last Name: First Name: Middle Name:

Vendor Maintenance Additional Information Vendor Types Address Taxes Collected

Start Date: 29-OCT-1996 Termination Date: Last Activity Date: 22-FEB-2005

Address Defaults

Procurement

Type Code: PO Sequence: 1

Accounts Payable

Type Code: PO Sequence: 1

Contact: Sue Smith

Phone: 907 4745639 Extension:

Collects Taxes: Collects No Taxes

Owner ID:

Check Vendor:

Discount Code:

Text Exists: N

The address listed in the A/P Default field of the screen in FTMVEND is the official mailing address for the 1099-MISC.

The Banner system will accept any of the vendor addresses that have been created as the A/P Default even if it is not the correct address. The system has no way of knowing the correct address for 1099 mailing purposes. It is necessary for users with access to this form to exercise caution with their data entry to ensure this field contains the appropriate code so our vendors who are subject to 1099 reporting will receive their 1099's in a timely manner.

If the address Type Code and Sequence # listed here does not contain the correct address then one of two things **MUST** happen:

1. These A/P Default fields **MUST** be changed to reflect the Type Code/Sequence# that contains the correct 1099 address. This action **may** require the addition of a new address Type Code and/or Sequence # to this vendor record.
- OR**
2. The address on the Type Code/Sequence# listed as default **must** be modified to reflect the correct 1099 address.

**NO EXCEPTIONS**