




Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Table of Contents


Overview.....	4
Introduction.....	4
Policy.....	5
General Requirements.....	6
Reporting Entity.....	6
What’s New for 1099 Reporting.....	7
What’s New for the Current and Future Calendar Years.....	7
Purchase Card Charges.....	7
Items You Should Note.....	8
Reporting Backup Withholding (BWH) and BWH Rate.....	8
Form 945—Withholding Tax Return.....	8
Use Form 1096 to Send Paper Forms to the IRS.....	8
Filing Electronically Using the FIRE System.....	9
Taxpayer Identification Number (TIN) Matching and IRS E Help Desk.....	9
List of Software Vendors.....	9
IRS Assistance.....	9
Reportable Payees.....	10
Reportable Payees.....	10
Taxpayer Identification Number (TIN) and the Form W-9.....	11
Taxpayer Name.....	11
Taxpayer Address.....	11
Obtaining a Taxpayer Identification Number (TIN).....	11
Vendors Who Have Not Provided a TIN.....	12
State and Federal TIN Reporting Requirements.....	12
1099 Reportable Payments.....	13
Calendar Year Reporting.....	13
Reminder: DOA Does Not Provide Tax Advice!.....	13
Payment Dollar Limits To Be Reported.....	14
Identifying All Sources of Payments.....	15
Potentially-Reportable Account Codes.....	17
Vendor Database.....	18
Guidelines for Filing Information Returns.....	18
Using an SSN.....	18
Using an EIN.....	19
Statewide Compliance Issues and References.....	20
Employee/Non-Employee.....	20
Employee vs. Independent Contractor.....	20
Non-U. S. Citizens (Foreign Persons).....	20
Payments to Foreign Persons.....	20
Tax Advice Recommended.....	21
Publications and Instructions Related to Payments to Foreign Citizens.....	21
Foreign Person and Entities Tax Withholding Requirements and Exemptions.....	22
Agency Responsibilities When Paying Foreign Persons and Entities.....	22

Volume No. 1—Policies and Procedures	TOPIC NO.	20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC	Information Returns Reporting
	DATE	December 2017

Nonresident Alien	23
Resident Alien Not Subject to Form 1042-S.....	23
Scholarships and Fellowship Grants	24
Prizes and Awards—Non-Employee	24
Meals, Travel and Lodging Reimbursements—Employee	24
Meals, Lodging and Travel Reimbursements—Non-Employee	24
Board and Commission Member Fees	25
Backup Withholdings.....	25
Vendor Debt Setoff and Garnishment Payments	25
Medical Expenses and Payments	26
Military Pay Differential W-2 Reportable	26
Tax—Exempt Status	26
Materials and Services	27
Jury and Witness Payments Reportable	27
Criminal Rewards and Fees not Reportable.....	27
Unemployment Compensation.....	27
Income Tax Refunds	28
Taxable Grant Payments	28
Foreclosures and Abandonments	28
Commissions Paid to Non-Employees Acting as Agents of the Commonwealth.....	28
Deceased Employee’s Wages	29
Deceased Employee’s Wages Paid to Estate or Beneficiary—Same Year As Death	29
Deceased Employee’s Wages Paid to Estate or Beneficiary—After Year of Death.....	29
Reporting Requirements for Payments Made to Estates and Beneficiaries	29
TIN Compliance and Backup Withholding	30
When is Backup Withholding Required?.....	30
Backup Withholding General Instructions.....	30
CP2100 – TIN/Name Unmatched Notices	30
Agency Responses to IRS Backup Withholding Notices.....	31
2-in-3 “B Notice” Rule	32
How to Process Backup Withholding Tax Payments.....	32
Tax Reporting Requirements for Backup Withholding Taxes: Forms 945 and 1099.....	33
IRS Penalties for Missing or Incorrect TINs.....	33
Other States Reporting Requirements.....	34
Other States Reporting Requirements.....	34
IRS Combined Federal/State Filing Program.....	34
Virginia Filing Requirements.....	34
State Taxation Agencies.....	35
Correcting 1099 Returns	37
Correcting or Replacing Electronic Information Returns	37
Common Electronic Filing Problems.....	37
Correcting Paper Returns	37
Records Retention.....	37
1099 Record Retention Period	37
Contacts.....	38
Internal Revenue Service Contacts	38
DOA Contacts.....	39

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Subject Cross References..... 39
Cross References.....39
Suggested Forms and Job Aids40
Attachment A—1099 Potentially Reportable Account Codes..... 41

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Overview


Introduction

The Federal government requires payers of various types of payments to report those payments to the Internal Revenue Service (IRS) according to the tax year in which they were paid. State governments must comply with the IRS reporting requirements in the same manner as local governments and private industry. In addition, State agencies have special reporting requirements that are unique to governmental functions such as the reporting of tax refunds, unemployment compensation, taxable grants, and agriculture payments.

This topic provides agencies and institutions with key compliance requirements and suggestions for the consistent application of the IRS Information Returns reporting requirements. Information Returns are used to report payments made to individuals, sole proprietors, partnerships, trusts, estates, foreign citizens, foreign companies, limited liability companies, and medical and legal corporations. Payments that meet the prescribed reporting requirements and dollar thresholds established by the IRS are reported for the calendar year in which the services are paid. There are a number of IRS publications, code sections, regulations, income tax instructions, and tax forms, which relate to the preparation and filing of Information Returns.

In addition to reporting payments, the IRS also has several withholding requirements, along with rules on how to solicit Taxpayer Identification Numbers (TIN).

The Department of Accounts (DOA) will inform agencies and institutions of changes in the IRS Information Reporting requirements by updating this topic annually.


Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Overview, Continued

Policy

Each State agency and institution must comply with Federal Information Returns reporting requirements. Each State reporting entity (agency or group of agencies) should develop procedures for accumulating calendar year Information Returns data and preparing the appropriate information in the IRS acceptable format (paper or electronically).

Functionality is available in Cardinal that uses vendor payment detail data and creates withholding detail records to report to the IRS. Transactions that are flagged for 1099 reporting are posted into the withholding tables and used to create the calendar year report (1099-MISC forms). Cardinal also generates the file that is required to be sent to the IRS. Refer to the “1099 Processing” Job Aid for detailed instructions of how to accomplish this. The Job Aid can be found on the Cardinal Project website. The ability to successfully utilize this 1099 functionality is linked to the appropriate Vendor setup and withholding configuration. Refer to subtopic “Vendor Database” below for more information.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Overview, Continued


General Requirements

Information Returns are:

- Required by the IRS for tax compliance auditing.
- Filed under the reporting entity's Employer Identification Number (EIN), which is the same number used to file payroll returns.
- Issued to individuals and other recipients as required by the IRS.
- Issued for payments such as interest, dividends, certain government payments, and miscellaneous payments to be reported as income by the recipients.
- Filed if payments reach the minimum dollar limits prescribed by the IRS for the calendar year.
- Submitted to the IRS electronically whenever 250 returns of any type of Information Returns are filed.
- Depending on the day of the week that the deadline falls on, paper returns are issued annually to the recipients on or about January 31 following the end of the calendar year being reported, and filed with the IRS on or about February 28.
- Information returns filed electronically with the IRS are due on or about March 31. Whenever this due date falls on a weekend or holiday, then the due date is the next business day.
- Corrected according to IRS guidelines and regulations.
- Supported by the **Form W-9**, *Request for Taxpayer Identification Number and Certification*, and other documentation required for audit purposes.
- Prepared in accordance with written agency procedures for recording reportable payments and processing Information Returns.

Reporting Entity

A reporting entity is any agency or group of agencies which files payroll and/or Information Returns under one unique TIN. The reporting entity is identified on Information Returns by payer name and the Employer Identification Number (EIN). The EIN is the same number as the one used by the reporting entity for payroll reporting. Reporting entities must include all reportable payments paid during the calendar year, which meet the IRS prescribed dollar thresholds for all reportable payee types.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

What’s New for 1099 Reporting

What’s New for the Current and Future Calendar Years

Readers should review the current year changes in the *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)*, and in the form-specific instructions available at www.irs.gov for the current calendar year.

The Department of Accounts (DOA) has provided a brief summary of selected changes for the current and future years in its “*What’s New for 1099 Reporting*” document located on the Financial Reporting webpage at www.doa.virginia.gov/Financial_Reporting/Financial_Reporting_Main.cfm. Click the IRS Information Returns -1099 Reporting link located on the right hand side of the webpage to view the changes.


Purchase Card Charges

The Department of Accounts began processing ePayable transactions in June 2011. State agencies and institutions are **not** required to add payment card and ePayable transactions to other reportable payment amounts for 1099 reporting purposes.

However, if an ePayable transaction is rejected by the vendor and subsequently processed as a check or EDI payment, the agency should review the individual line items contained in the payment transaction to determine if any amounts are 1099 reportable. DOA will provide separate communications to each agency identifying any ePayable transactions that are rejected and subsequently processed as a check or EDI payment.

State agencies and institutions are responsible for filing information returns for all qualifying transactions other than payments issued as Purchase Card or ePayable transactions.

DOA will provide additional communication(s) to address future 1099 reporting periods as new guidance becomes available.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Items You Should Note

Reporting Backup Withholding (BWH) and BWH Rate

If the agency backup withholds on a payment, the agency must file the appropriate **Form 1099** or **W-2G** with the IRS and furnish a statement to the recipient to report the amount of the payment and the amount withheld. This applies even though the amount of the payment may be below the normal threshold for filing **Form 1099** or **W-2G**. The current BWH rate is 28%; however, this rate is subject to be changed periodically by the IRS. Therefore, the Department of Accounts recommends that each agency review the latest version of **Pub. 15 (Circular E), Employer's Tax Guide**, at the IRS website to ensure that this rate is still appropriate. Also, see the requirements below for reporting BWH on the **Form 945**.


Form 945—Withholding Tax Return

Report backup withholding, voluntary withholding on certain government payments and withholding from gambling winnings, pensions, annuities, IRAs, military retirement, and Indian gaming profits on **Form 945, Annual Return of Withheld Federal Income Tax**. For more information, including the deposit requirements for **Form 945**, see the separate instructions for the **Form 945**, and **Pub. 15 (Circular E), Employer's Tax Guide**.

Use Form 1096 to Send Paper Forms to the IRS

Paper filers must send Copy A of all paper **Forms 1099, 1998, 5498, and W-2G** to the IRS with a separate **Form 1096, Annual Summary and Transmittal of U.S. Information Returns**, for each type of return filed.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Items You Should Note, Continued

Filing Electronically Using the FIRE System

The FIRE (Filing Information Returns Electronically) System is on the Internet at <http://fire.irs.gov>. The FIRE System does not provide fill-in forms. Filers must program submission files according to the record layout specifications contained in the latest edition of IRS **Publication 1220**, *Specifications for Filing Forms 1097, 1098, 1099, 3921, 3922, 5498, 8935, and W-2G Electronically*. **Cardinal file formats are revised as needed for changes by the IRS.**

Taxpayer Identification Number (TIN) Matching and IRS E Help Desk

Taxpayer Identification Number (TIN) matching allows a payer or authorized agent (e.g. Purchase Card agent) who is required to file forms which report income subject to backup withholding to match TIN and name combinations with IRS records before submitting the forms to the IRS. TIN Matching is one of the IRS E-services products that is available through the IRS website. Go to www.irs.gov and search for “E-services.” Payers who validate the TIN and name combinations of vendors and other payees before filing the information returns should receive fewer backup withholding (CP 2100) “B” notices and penalty notices. E-services technical support (E Help Desk) is available by calling 1-866-255-0654, Monday through Friday, from 7:30 a.m. to 7:00 p.m. Eastern Time.

List of Software Vendors


IRS Information Returns Branch (IRS/IRB) prepares a list of vendors who support electronic filing.

Pub. 1582, *Information Returns Vendor List*, contains the names of vendors that will produce files on the prescribed layout for electronic filing. This list is compiled as a courtesy and in no way implies IRS approval or endorsement. The Vendor List is updated periodically. The most recent edition is available on the internet at www.irs.gov.

Note: Cardinal has the functionality to produce 1099 reporting information including the file sent to the IRS and the 1099 Copy B forms for the vendors and thus, additional software would not be required if this functionality is utilized.

IRS Assistance

The IRS operates a centralized call site to answer all types of questions about reporting information returns. You may contact them using the numbers and addresses in the Contacts Section shown at the end of this CAPP – Cardinal Topic.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Reportable Payees


Reportable Payees

Payees may be:

1. Individuals (Non-employees): A determination should be made prior to hiring an individual as to the employment status. Agencies must determine whether an individual should be classified as an employee and paid through the agency payroll or classified as a non-employee and paid through the vendor payment process. Agencies should obtain copies of **Pub. 15** (*Circular E*), *Employer's Tax Guide*, and **Pub. 15A**, *Employer's Supplemental Tax Guide*, for guidance in determining employee/non-employee status.
2. Sole proprietors (including doctors and attorneys).
3. Partnerships.
4. Limited Liability Companies (for sole proprietors, *medical and legal corporations*, and partnerships).
5. Trusts or Estates.
6. Medical and Healthcare Corporations (for services rendered).
7. Legal Corporations.

Most corporations except medical and legal corporations are exempt from receiving information returns. Medical and legal corporations must receive **Form 1099-MISC** returns for service payments totaling \$600.00 or more during the calendar year. When reporting payments to legal or medical corporations on a **Form 1099-MISC**, list the corporation as the recipient rather than the individual providing the services.

A state employee is typically not 1099 reportable but may be reportable in special circumstances where the employee is also providing services as a vendor. In this case, the employee should also be set up as a vendor in Cardinal using the appropriate reportable vendor information when requesting set up by the Commonwealth Vendor Group (CVG) or they should register as a vendor through eVA; whichever is applicable. Any payments related to services provided by the individual would be paid through the standard accounts payable process with the individual identified as a vendor.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Reportable Payees, Continued

Taxpayer Identification Number (TIN) and the Form W-9

The Taxpayer Identification Number (TIN) is a nine-digit number used to uniquely identify a taxpayer. Upon request, each taxpayer must provide the payer with his/her TIN, or be subject to backup withholding. Individual payees are to provide social security numbers (SSN) for Information Returns Reporting purposes. Sole proprietors may provide either the EIN or SSN, although the IRS prefers that sole proprietors provide the SSN. All other taxpayers should provide an EIN. A **Form W-9, Request for Taxpayer Identification Number and Certification**, may be used to solicit this information. **(Do not request a Form W-9 from other state agencies. State agencies are exempt from receiving information returns.)** See CAPP – Cardinal Topic No. 21105, *Vendor Maintenance*, for guidance also.

Taxpayer Name

This is the name of the individual, sole proprietor (legal owner), or organization with which the agency is doing business. When producing Information Returns, the name of the recipient must match the name associated with the TIN. For sole proprietors, enter the individual’s name on the first name line of the RECIPIENT’S name box of the **Form 1099-MISC**. Below it, on the second name line, enter the business name or enter the “doing business as (DBA) name” if provided.


Taxpayer Address

The mailing address should be the business location address for the recipient of the Information Return. In many cases, this address may differ from the payment remittance address.

Obtaining a Taxpayer Identification Number (TIN)

With the implementation of the Comptroller's Debt Setoff program and the Financial Electronic Data Interchange program, agencies are required to use the vendor's TIN for vendor setup in Cardinal. The CVG will use the TIN when creating the new vendor in Cardinal and assign each vendor a unique identification number to be used for payment processing.

Agencies may use the **Commonwealth’s Substitute Form W-9**, to obtain 1099 reportable vendor's TIN, name, and address, and to certify that the vendor is not subject to backup withholding taxes. Agencies may use information on the taxpayer’s letterhead or invoice to further substantiate that the entity is a corporation.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Reportable Payees, Continued

Vendors Who Have Not Provided a TIN

Vendors, who have not provided the TIN, must be contacted by the agency immediately following the receipt of the invoice to obtain the required payment information. At that time, agencies should inform the vendor that payments will be delayed pending the receipt of the vendor's TIN and will be subject to backup withholding until a TIN has been provided. Agencies should further explain to the vendors the State and Federal statutory TIN reporting requirements. See subtopic *State and Federal statutory TIN Reporting Requirements* below.


State and Federal TIN Reporting Requirements

State Requirement

The *Code of Virginia*, Section 2.2-4354(2) at <http://leg1.state.va.us/> requires contracts awarded by State agencies to include a special payment clause which directs individual contractors to provide the SSN, and sole proprietors, partnerships, and corporations to provide the EIN. Invoices for vendors who refuse to provide such information are considered in dispute under the provisions of the Prompt Payment statutes.

Federal Requirement

The IRS requires vendors to provide the TIN. This information can be obtained on a **Form W-9**. If a reportable vendor does not provide an agency with a TIN, payments to that vendor are subject to backup withholding.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

1099 Reportable Payments

Calendar Year Reporting


Because the Commonwealth uses a July 1 - June 30 fiscal year basis for accounting and reporting, each reporting entity must develop its own methods for accumulating information for the January 1 - December 31 tax year/calendar year period. As a general rule, checks written, or payments made, on or before December 31 are included in that calendar year's 1099 reportable payment information. **If the payment date was in December, the money is considered to be available to the recipient in that calendar year, and is therefore 1099 reportable in that calendar year.**

The Cardinal 1099 functionality automatically accounts for the proper period when generating 1099 return information, based on the information input when vouchers are initially processed in the Accounts Payable module and payment information, when the voucher is processed for payment.

Reminder: DOA Does Not Provide Tax Advice!

A 1099 return is an “informational” document only, and does not necessarily indicate that the information reported to the taxpayer is subject to taxation. **DOA does not provide tax advice regarding 1099 information.** The recipient of the information return, along with the accountant or tax advisor, must determine which portion, if any, of the income reported on **Form 1099** is subject to taxation.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

1099 Reportable Payments, Continued


Payment Dollar Limits To Be Reported

IRS minimum reportable dollar thresholds for each type of payment to be reported on Information Returns must be identified. Please refer to the specific 1099 Form instructions to determine the threshold for each type of payment. When the payee's reportable payments reach the IRS dollar threshold for the payment type, the payee is required to receive an Information Return.

For example, the minimum amount of non-employee compensation for services that must be reported on a **Form 1099-MISC** is \$600 (*excluding Payment Card payments and/or ePayable payments that are reported on a Form 1099-K by the banks and other Purchase Card Settlement Organizations*).

Example 1:	An individual (non-employee) received \$50.00 in royalties during the calendar year and \$1,000.00 in non-employee compensation. The minimum reporting amount for royalties is \$10.00. The minimum amount to be reported for non-employee compensation is \$600.00. The 1099-MISC Return will be completed showing the royalty payment of \$50.00 and the non-employee compensation paid of \$1,000.00.
Example 2:	The individual received \$550.00 in rents and \$1,200.00 in non-employee compensation. The minimum reportable dollar limit for both rents and non-employee compensation is \$600.00. The 1099-MISC Return will be completed showing \$1,200.00, non-employee compensation. The rent payments of \$550.00 did not meet the \$600.00 limit for reporting and, therefore, do not need to be reported.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017


1099 Reportable Payments, Continued

Identifying All Sources of Payments

Agencies must develop procedures to identify all sources of reportable vendor payments including those identified below. These special scenarios should be reviewed carefully for 1099 inclusion/exclusion.

- **Petty Cash Transactions** – Agencies that pay invoices for services using petty cash must establish procedures to monitor and accumulate 1099 reportable vendor payments incurred through the use of petty cash. The reportable petty cash payments must be added to other reportable payments made to the recipient to determine if the sum of all reportable payments meet or exceed the \$600 reporting threshold. Note: For agencies that use Cardinal functionality for 1099 reporting, the reportable petty cash payments recorded in Cardinal **will be** included in the 1099 tables and no further action is necessary on the part of the agency to include these amounts in the grand total of payments made to a vendor.
- **Stop payments** - Agencies that stop payment on checks during a calendar year must establish procedures to reduce the amount reported to 1099 reportable vendors by the amount of the stop payment. Note: For agencies that use Cardinal functionality for 1099 reporting, when the payment post withholding post runs, it will post the cancelled payment to the 1099 tables and the only action necessary on the part of the agency will be verifying the “cancel” has posted in the correct calendar year, especially when the cancel crosses fiscal years.
- **Express Pays (Specials)** - These payments should be added to other reportable payments made to the vendor. Note: For agencies that use Cardinal functionality for 1099 reporting, the reportable Express Pay payments **will be** included in the 1099 tables and no further action is necessary on the part of the agency to include these amounts in the grand total of payments made to a vendor.
- **Debt setoff payment reductions** - Note: For agencies that use Cardinal functionality for 1099 reporting, the voucher amount is updated in the withholding table and, therefore, payments **will be** included in the 1099 tables and no further action is necessary on the part of the agency to include correct amounts in the grand total of payments made to a vendor.
- **Backup withholding** - Note: For agencies that use Cardinal functionality for 1099 reporting, Cardinal handles backup withholding as prescribed by the IRS and no further action is necessary on the part of the agency to include these amounts in the grand total of payments made to a vendor.

Continued on next page


Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

1099 Reportable Payments, Continued

Identifying All Sources of Payments, continued

- **Refunds from payees (Deposit Certificates)** – Note: For agencies that use Cardinal functionality for 1099 reporting, these items WILL need to be manually adjusted.
- **Adjustments to correct the account code of expenditure or other data entry error adjustments** – Note: For agencies that use Cardinal functionality for 1099 reporting, these items WILL need to be manually adjusted.
- **Payments from funds not recorded in Cardinal** – Note: For agencies that use Cardinal functionality for 1099 reporting, these items WILL need to be manually adjusted.

As of January 1 2011, Purchase Card payments and ePayable Transactions **are not** reportable on a Form 1099-MISC. Refer to subtopic “Purchase Card Charges” above for more information.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

1099 Reportable Payments, Continued

Potentially-Reportable Account Codes


DOA has identified those account codes which are potentially subject to the IRS 1099 reporting requirements. See Attachment A, entitled *1099 Potentially Reportable Account Codes*, at the end of this CAPP – Cardinal Topic.

Most account codes clearly identify the reportable services rendered by the vendor, such as account code 5012410, Auditing Services. However, other account codes may be used to identify both reportable and non-reportable payments. For example, account code 5012050, Seat Management Services, may be used to code payments for computer hardware and software through a single source contract including support services. Only the portion of the payment that pertains to services is reportable.

Caution: The account code alone is not sufficient to determine if the payment is 1099 reportable. The vendor type (i.e., individual, sole proprietor, etc.) must also be considered.

The Cardinal 1099 functionality automatically takes account code and vendor type into consideration when determining 1099 reportable information.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

1099 Reportable Payments, Continued

Vendor Database

The CVG is responsible for maintenance of the vendor database in Cardinal. Cardinal has one common vendor database for the entire Commonwealth. Agencies are responsible for notifying the CVG when a new vendor needs to be added to the system using a “Vendor Maintenance Request” form. Procurement related vendors must be entered in eVA and interfaced to Cardinal. Agencies have View access to the vendor table and can review reportable status via the Vendor Identifying Information Tab ‘Withholding’ checkbox which is checked if the vendor is 1099 reportable. Refer to CAPP – Cardinal Topic No. 21105, *Vendor Maintenance*, for more information.


Guidelines for Filing Information Returns

Using an SSN

The chart below includes guidelines for filing information returns using a social security number (SSN).

Recipient	Enter SSN for	In the First Payee Name Line Enter
Individual	Individual	Legal name of individual as on W-9
Sole Proprietor	Individual Owner	Legal name of individual owner as on W-9.
Medical or Legal Corporation	N/A	N/A
Partnership	N/A	N/A
Estate	N/A	N/A
Trust	Grantor-Trustee	Legal name of grantor-trustee as on W-9
LLC	See the General Instructions and/or the back page of the Instructions of the Form W-9.	Depends on type of LLC.


Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Guidelines for Filing Information Returns, Continued

Using an EIN The chart below includes guidelines for filing information returns using an employer identification number (EIN).

Recipient	Enter EIN for	In the First Payee Name Line Enter
Individual	N/A	N/A
Sole Proprietor	Individual Owner	Legal name of individual owner as on W-9.
Medical or Legal Corporation	Medical Corp. or Legal Corp.	Legal name of medical or legal corporation as provided on W-9
Partnership	Partnership	Legal name of partnership as provided on W-9
Estate	Estate	Legal name of estate as provided on W-9
Trust	Grantor Trustee	Legal name of grantor-trustee as on W-9
LLC	See the General Instructions and/or the back page of the Instructions of the Form W-9.	Depends on type of LLC.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References

Employee/Non-Employee Employees receive a **Form W-2** for calendar year amounts paid through the payroll system as employees.

Non-employees receive a **Form 1099-MISC** for non-employee compensation paid to them outside the payroll system.

Each agency must make a determination whether the individual is considered an employee or non-employee. This distinction determines the type of statement to be issued to the individual at calendar-year end (**W-2** or **1099**). See **Pub. 15**, (*Circular E*), *Employer’s Tax Guide* and **Pub. 15 -A**, *Employer’s Supplemental Tax Guide*.


Employee vs. Independent Contractor Agencies should refer to **Pub. 15** (*Circular E*), *Employer’s Tax Guide*, and **Pub. 15-A**, *Employer’s Supplemental Tax Guide*, to determine whether an individual should be treated as an employee or an independent contractor. Special care should be taken to ensure that the appropriate tests are used to make the determination. Misclassification may result in penalties imposed by the IRS. Report payments to independent contractors on a **Form 1099-MISC** and payments to employees on a **Form W-2**.

Non-U. S. Citizens (Foreign Persons) As stated on Page 6 of **Pub 515**, *Withholding of Tax on Nonresident Aliens and Foreign Entities*, a foreign person includes a nonresident alien individual, a foreign corporation, a foreign partnership, a foreign trust, a foreign estate, and any other person that is not a U. S. person.

Payments to Foreign Persons Payments to foreign persons, regardless of the amount, are subject to withholding under Chapter 3 of the Internal Revenue Code (*Title 26, United States Code, Chapter 3*), including payments for interest, dividends, royalties, pensions, annuities, gambling winnings, and other compensation for personal services performed in the United States. These types of payments should be reported on a **Form 1042-S** (**not on a Form 1099**), *Foreign Person’s U.S. Source Income Subject to Withholding*, typically by March 15th for payments made during the prior calendar year. See the IRS web-site (www.irs.gov) for the actual date each year.

The physical location where the service is performed determines the source of the income. Payments for personal services performed by foreign persons outside the United States do not require tax withholding or reporting on a **Form 1042-S**, nor on a **Form 1099**. For additional information, see the section related to foreign persons on the following page.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Tax Advice Recommended


DOA recommends that state agencies and institutions seek legal counsel and tax advice on the withholding of taxes, tax treaties, and the reporting of the earnings by non-U. S. citizens. You may also refer to information on the U.S. Department of the Treasury website related to treaties and other international documents at <http://www.treasury.gov/resource-center/tax-policy/treaties/Pages/default.aspx>.

Publications and Instructions Related to Payments to Foreign Citizens

IRS Publications and Instructions related to payments made to foreign citizens and foreign companies are:

- **Pub. 515**, *Withholding of Tax on Nonresident Aliens and Foreign Entities*
- **Pub. 519**, *U.S. Tax Guide for Aliens*
- **Pub. 901**, *U.S. Tax Treaties*
- **Pub. 1187**, *Specifications for Filing Form 1042-S, Foreign Person’s U. S. Source Income Subject to Withholding, Electronically*
- **Instructions for the Requester of Forms W-8 BEN, W-8 ECI, W-8 EXP and W-8IMY**

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued


Foreign Person and Entities Tax Withholding Requirements and Exemptions

The IRS tax withholding and reporting requirements for payments to foreign persons and entities are explained in the *Instructions for the Requester of Forms W-8 Series* and the **Form W-8** -specific instructions. Foreign persons must provide **Form W-8 BEN**, or applicable documentary evidence. They are exempt from the **Form W-9** requirements and related backup withholding (but they are not exempt from tax withholding) and they are exempt from Form 1099 reporting. The requirements for withholding of tax on payments of U.S. source income to foreign persons can be obtained by calling the IRS at **(267) 941-1000** and from **Pubs. 515, 519 and 901**.

Agency Responsibilities When Paying Foreign Persons and Entities

Each state agency and institution is responsible for evaluating disbursements to determine whether the recipient qualifies as a foreign person or entity that requires a Form W-8 or equivalent. Agencies and institutions bear the responsibility to be familiar with the applicable tax treaties or other relevant documentation. Should any deficiencies in documentation or mandatory withholding be identified by the Internal Revenue Service or other parties, the state agency or institution will bear sole responsibility for any fines, penalties, etc. As previously mentioned, agencies and institutions should seek legal and/or tax advise should guidance be needed.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Nonresident Alien


Pubs. 515 and 519 provide the criteria for determining if a non U. S. citizen is a nonresident alien or resident alien for tax purposes.

Nonresident aliens are taxed on income earned within the United States and such income is reported annually on **Forms 1042-S, 1042** and/or a **Form W-2** as appropriate. All non-payroll earnings are reported on the **Form 1042-S**, and the **Form 1042**, and are generally subject to tax withholding.

Resident Alien Not Subject to Form 1042-S

Amounts paid to residents of U.S. possessions and territories are not subject to reporting on a **Form 1042-S** if the beneficial owner of the income is a U.S. citizen, national or resident alien.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Scholarships and Fellowship Grants Scholarships and Fellowships paid to nonresident aliens are discussed in **Pub. 519, U. S. Tax Guide for Aliens**. Please note that you are generally required to withhold tax and report certain scholarships and fellowships given to nonresident aliens.

Prizes and Awards—Non-Employee Prizes and awards paid to non-employees in excess of \$600 for the calendar year are reported on a **Form 1099-MISC**. However, the total amount of prizes and awards to nonresident aliens are subject to withholding taxes and reporting on a **Form 1042-S**.


Meals, Travel and Lodging Reimbursements—Employee Do not use Form 1099 to report employee business expense (meals, travel and lodging) reimbursements.
 Payments made to employees under a “Non-accountable Plan” are reported as wages on a **Form W-2**, but reimbursements made to state employees under an “Accountable Plan” (as required by the Travel regulations) **are neither Form W-2 reportable nor Form 1099 reportable.**

For guidance pertaining to nonresident aliens, see **Pubs. 515** and **519**.

Meals, Lodging and Travel Reimbursements—Non-Employee Reimbursements to non-employees, such as consultants and contractors or job applicants, are covered under the IRS “Accountable Plan” guidelines. Amounts reimbursed under an “Accountable Plan” are not subject to Information Returns reporting.

However, if these are reimbursements for which the non-employee did not account to the payer, they are 1099 reportable on a **Form 1099-MISC** (provided the total to the non-employee of all fees and allowances is at least \$600). For a definition of “Accountable” and “Non-accountable” Plans, see Chapter 13 of **Pub. 535, Business Expenses**.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Board and Commission Member Fees

The IRS has challenged the methodology that some Commonwealth entities have used in prior years to report payments to Commonwealth Board and Commission members. If the agency or institution is uncertain about the appropriate reporting mechanism, please contact the Office of the Attorney General or other appropriate legal counsel for guidance.


Backup Withholdings

1099 Returns must reflect the gross amounts paid to reportable vendors. Backup withholding amounts (federal taxes withheld from the total due and deposited with the federal government) are reported separately on the 1099 Returns in the box provided. The gross amount paid to the individual, which includes the backup withholding amount is reported in the appropriate box on the appropriate 1099 Return.

Vendor Debt Setoff and Garnishment Payments

Vendor debt setoff payments and garnishments for non-employees represent amounts paid by the State on behalf of the vendor for indebtedness. The gross amount paid to the vendor should be reported in box 7 of the **Form 1099-MISC** by the disbursing agency because it is subject to taxation. Any amounts withheld should be reported in box 4 (federal) or box 16 (state).

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Medical Expenses and Payments

As stated in Section 6041 of the IRC, during the course of trade or business, payments made to physicians, dentists, medical suppliers, proprietary hospitals, laboratories, medical centers, and payments made under health, sickness, or accident insurance plans equal to, or in excess of \$600.00 for medical or healthcare expenses are to be reported on the **Form 1099-MISC**. However, do not report payments made to tax exempt or government owned hospitals (such as UVA Hospital), and do not report payments made under a health reimbursement or flexible benefit arrangement defined in IRC Section 106C (2).

Medical and healthcare expenses are defined as drugs, injections, and other medical services provided by a physician, dentist, medical supplier, proprietary hospital, or medical center. List the legal name of the business providing the service as the recipient rather than the individual performing the service. Report medical expenses and payments using the EIN for the business.

Payments to Veterinary Clinics and Animal Shelters that are incorporated are included in this reporting requirement. Additionally, if the Veterinarian is a sole proprietor, the services provided are subject to reporting on a **Form 1099-MISC**.


Military Pay Differential W-2 Reportable

Military differential wage payments made to employees while they are on active duty in the Armed Forces are reported on a **Form W-2** and not on a **Form 1099-MISC**.

Tax—Exempt Status

Corporations, governmental agencies, nonprofit organizations, and entities that are tax exempt under § 501 (c) (3) of the IRC are not subject to IRS tax reporting.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued

Materials and Services

Most vendors will separate the charges for goods and services on the vendor invoice. In the event the invoice does not separate the charges for goods and services, the vendor should be contacted to obtain the necessary information.

Services are 1099 reportable; supplies and materials are not.

However, if the charges for goods and services are purchased from a reportable vendor and the vendor does not separate the charges, then the total amount of the invoice can be considered reportable. DOA recommends that the procurement personnel require vendors to submit an invoice which identifies the charges for goods and services separately. If this requirement is specified up front with the vendor, then invoices improperly billed can be considered in dispute under the Prompt Payment Act. Whenever parts and materials are purchased from a service oriented vendor, charges such as labor and delivery are considered as 1099 reportable.

Jury and Witness Payments Reportable

Jury and witness per diems or other fees constitute “other income” and are subject to reporting on a **Form 1099-MISC** if more than \$600 is paid in the calendar year.

Travel expenses for jurors and witnesses are not subject to reporting if an adequate accounting for such expenses is made within a reasonable time and date in which they were incurred.


Criminal Rewards and Fees not Reportable

Rewards and fees paid to individuals, who provide information concerning criminal activity, are **not reportable** when paid by a governmental entity.

Unemployment Compensation

Payments for individual unemployment compensation under State unemployment compensation laws must be reported on **Form 1099-G, Certain Government Payments**, for the calendar year period. Payments under \$10 need not be reported.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Statewide Compliance Issues and References, Continued


Income Tax Refunds State authorities who impose a tax on income must report refunds, offsets, and credits made to taxpayers on the **Form 1099-G**, *Certain Government Payments*. Taxable income is defined as earned wages, interest, dividends, capital gains, and business profits. If the tax refund, offset, or credit applies to more than one tax year, then an Information Return must be filed for the amount refunded, offset, or credited for each year involved.

Taxable Grant Payments Report amounts of taxable grants of \$600 or more on the **Form 1099-G**. A Federal grant is normally considered taxable unless stated otherwise in the authorizing legislation. **All types of corporations receiving taxable grants**, not just medical and legal corporations, **are** considered by the IRS to be **1099-G reportable**.

Grants made by State agencies to subsidize energy financing projects to conserve or produce energy for residential property or "Section 38" property should be reported on a **Form 1099-G**. The purpose of this reporting is to ensure taxpayers claiming credit on the personal income tax returns for energy and reforestation payments did indeed receive such payments from a State agency. All payments for energy related grants should be reported regardless of the amount.

Foreclosures and Abandonments The IRS rules regarding the acquisition or abandonment of secured property are covered in the instructions for the **Form 1099-A**, *Acquisition or Abandonment of Secured Property*.

Commissions Paid to Non-Employees Acting as Agents of the Commonwealth Commissions of \$600 or more paid to non-employees, acting as agents of the Commonwealth, are reportable on a **Form 1099-MISC** as non-employee compensation. This includes commissions paid to licensing agents for the sale of game and fishing licenses and lottery ticket sales.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Deceased Employee's Wages

Deceased Employee's Wages Paid to Estate or Beneficiary—Same Year As Death

Payments Made Within the Same Year of Employee's Death

Accrued wages, vacation pay, and other compensation owed to a deceased employee after the date of death, but paid within the same year that the employee died, are subject to Social Security and Medicare taxes and should be reported on the employee's **Form W-2**. Report the amount paid in box 3, Social Security Wages, and box 5, Medicare Wages and Tips. The associated taxes should be reported in boxes 4 and 6 respectively. Under no circumstances should the accrued wages of a deceased employee be reported in box 1 on Form W-2. Accrued wages must be reported in box 3 of a Form 1099-MISC that goes to the estate or beneficiaries of the deceased. A detailed and helpful example is shown in the **Instructions for Form 1099-MISC available on the IRS website.**

Deceased Employee's Wages Paid to Estate or Beneficiary—After Year of Death

Payments Made After Year of Employee's Death


Accrued wages, vacation pay, and other compensation paid to a deceased employee's estate or beneficiaries after the date of death, but in a different year from which the employee died, are not subject to Social Security and Medicare taxes and should not be reported on a **Form W-2**. However, the employer would still file **Form 1099-MISC**.

Agencies should refer to IRS Instructions for **Form W-2** for additional information on reporting deceased employee wages.

Reporting Requirements for Payments Made to Estates and Beneficiaries

Payments of accrued wages, vacation pay, or other income made to estates and beneficiaries, regardless of whether the payment was made in the year of death or after the year of death, must be reported on a **Form 1099-MISC**. Report such payments in box 3, "Other Income." Enter the name and TIN of the payment recipient on Form 1099-MISC. If the recipient is an individual beneficiary, enter the SSN and legal name. For estate payments, enter the name and EIN of the estate. The general back-up withholding rules apply.

Payments of death benefits from deferred compensation plans are not reportable on the **Form 1099-MISC**, but instead are reportable on **Form 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.**

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

TIN Compliance and Backup Withholding

When is Backup Withholding Required?

The IRS requires payers under certain circumstances to backup withhold at a current rate of 28% (subject to change periodically by IRS) for vendor payments made for interest, rents, royalties, commissions, non-employee compensation, and certain other payments.

Backup withholding is required when:

- A vendor fails to provide an agency or institution with the Taxpayer Identification Number (TIN).
- The IRS notifies the agency or institution that the TIN provided by the vendor is incorrect TIN on an IRS B Notice.
- The vendor fails to certify, under penalties of perjury, that the TIN provided is correct.
- The vendor fails to certify, under penalties of perjury, that they are not subject to backup withholding.

Backup Withholding General Instructions


The *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)* and the *Instructions for the Requester of Form W-9* for the current tax year determine the types of payments that are subject to, or exempt from, backup withholding.

CP2100 – TIN/Name Unmatched Notices

The IRS issues CP2100 notices for all TIN/name combinations for which the IRS or SSA was unable to match to the internal databases. Commonly, the mismatch occurs because information returns are filed with missing or incorrect TIN's. Agencies receiving notices should contact the vendor and obtain a current W-9 to ensure that the vendor TIN is correct.

See **Pub. 1281**, *Backup Withholding on Missing and Incorrect Name/TINs*, and **Pub. 1586**, *Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TIN's*.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

TIN Compliance and Backup Withholding, Continued

- The IRS mails CP2100 notices to the agency’s “Address of Record” in September and October of each year following the previous tax year. A second set of notices are mailed in March of the following year. For most agencies, the “Address of Record” is the Payroll Department and not the invoice processing section. Therefore, it is recommended that you periodically check with the agency’s Payroll Department to ensure that the agency did not received a CP2100 notice. Also, you may call 1-866-455-7438 to find out from the IRS if pending CP2100 notices are on file for the agency.
- A CP2100 notice does not require the agency to prepare a written response to the IRS. However, other appropriate actions such as a **Form W-9** solicitation or the processing of backup withholding taxes may be required.
- One of the most common errors resulting in a CP2100 notice is when an agency submits an information return for a sole proprietor and the business name is listed on line 1. For sole proprietor filings, the sole proprietor’s owner’s personal name (e.g.: Joseph P. Wurzelbacher), and not the business name (e.g.: not “Joe the Plumber’s Plumbing Company”), must be listed on line 1 of the form to avoid a TIN/name combination mismatch.


Agency Responses to IRS Backup Withholding Notices

First IRS "B Notice"

Within 15 days after receiving an IRS B-Notice (Backup Withholding Notice), an agency or institution should send the vendor a new Form W-9 to complete. A copy of the "B Notice" and the **Form W-9** should be sent to the vendor by first class mail, personal delivery, certified mail, or by any means assuring prompt delivery to the payee's last known address. Additionally, a pre-addressed, stamped envelope marked "**Important Tax Document Enclosed**" should accompany the "B Notice."

The vendor has **30 business** days to respond to the "B-Notice" before backup withholding commences. During this 30 business day period, payments to the vendor should be suspended. Invoices subject to the Prompt Payment Statutes may be legitimately delayed and considered in dispute. If the vendor fails to provide the required information, begin backup withholding on the 31st business day. Withholding should continue until the vendor provides the agency or institution with the correct TIN on a **Form W-9**.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

TIN Compliance and Backup Withholding, Continued

2-in-3 “B Notice” Rule


Second IRS “B Notice”

Agencies and institutions are required to monitor and track IRS “B Notices” for purposes of the IRS “2-in-3 Rule.” Under this rule, records must be maintained to determine if two notices were received for the same TIN and vendor name within a three calendar year period. When this occurs, agencies and institutions are required to send a second notice to the vendor. Under these circumstances, the agency or institution **must continue to backup withhold** on all payments to the vendor until the IRS or SSA notifies the agency with a 147C letter or SSA Form 7028. Other documents such as a **Form W-9** are **not sufficient** to suspend withholding once a second “B Notice is received.

How to Process Backup Withholding Tax Payments

Processing of backup withholding is handled by Cardinal when the vendor is paid. Cardinal will split the payment between the vendor and the IRS. The vendor must have been updated by the CVG to indicate that backup withholding is required. Refer to CAPP – Cardinal Topic No. 20319, *Electronic Federal Tax Payments Processing*, for further information.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

TIN Compliance and Backup Withholding, Continued

Tax Reporting Requirements for Backup Withholding Taxes: Forms 945 and 1099

In order to properly record an agency's backup withholding tax liability, **Form 945, Annual Return of Withheld Federal Income Tax**, must be filed with the IRS at calendar year-end. Compliance procedures for processing **Form 945, Annual Report of Withheld Federal Taxes**, are in CAPP – Cardinal Topic No. 20319, *Electronic Federal Tax Payment Processing*.

Typically, vendor payments subject to backup withholding must be reported on a **Form 1099-MISC** with the gross amount of the payment reported in Box 7 (Nonemployee compensation) and the withholding tax reported in Box 4 (Federal income tax withheld). However, depending on the type of service paid for, the gross amount could be reported on a different **Form 1099** and/or in a different payment box. See also Part N of the *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)*, and the instructions for completing Box 4 of the **Form 1099-MISC**.


IRS Penalties for Missing or Incorrect TINs

For information returns filed with a missing or incorrect TIN, a \$260 penalty may be assessed depending upon when the corrected return is filed. This penalty may be reduced to \$50 if a correction is filed within 30 days of the required filing date and to \$100 if a correction is made by August 1.

IRS Penalty notices are automatically generated with the CP 2100 notice and mailed to the agencies in December. Agencies have 45 days to respond to this notice by either paying the penalty assessment or writing to the IRS to request a waiver.

Agencies that have performed due diligence or can prove reasonable cause for erroneously filing information returns with missing or incorrect TINs, should submit a letter to the IRS requesting a penalty waiver. In most cases, a waiver will be granted.

Agencies should review **Pub.1281, Backup Withholdings on Missing and Incorrect TINs**, and **Pub. 1586, Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINS**, prior to requesting a penalty waiver.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Other States Reporting Requirements

Other States Reporting Requirements

A number of states, as well as the District of Columbia, require Information Returns reporting for various types of non-payroll compensation and other miscellaneous income.

While the filing requirements and dollar reporting thresholds may vary; the requirement to file a state return is generally contingent on the reporting requirements of the state in which the 1099 recipient resides.

Each state's filing requirements are subject to change.

EXAMPLE:

A contractor residing in the District of Columbia performs services at George Mason University (GMU) in Fairfax, Virginia. The services were performed in Virginia which does not require an Information Returns filing. However, the contractor lives in the District of Columbia, which does require Information Returns filing. Under these circumstances, GMU should submit a copy of the information return to the District of Columbia, Department of Finance and Revenue, for the amount of income paid to the contractor (provided the amount was over the District of Columbia's dollar threshold for information returns reporting).

When the agency has reportable payments to out-of-state vendors, the agency is responsible for contacting the respective states to obtain the latest information reporting requirements, threshold criteria, and mailing address.

A listing of state websites is provided later in this topic under "State Taxing Agencies."


IRS Combined Federal/State Filing Program

Several States (including Virginia) and the IRS have authorized filers filing electronically to participate in the IRS Combined Federal/State Filing (CF/SF) Program whereby the IRS will forward State copies of information returns to other participating States. Agencies planning to participate in the CF/SF Program must comply with the conditions set forth in Section 10 of IRS **Pub. 1220**. Participating States are listed in IRS **Pub. 1220**. **This program is not available to paper filers.**

Virginia Filing Requirements


The Virginia Department of Taxation does NOT require filers of information returns (*including the Forms 1099 and the Form W-2G*) to file the State copy unless Virginia withholding taxes are reported.

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Other States Reporting Requirements, Continued


State Taxation Agencies The chart shown on the following page provides a listing of the taxation agency websites for each state and the District of Colombia.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

State Taxation Agencies ^{1/}

State	State Name	Name	Website
AL	Alabama	Dept. of Revenue	www.alabama.gov
AK	Alaska	Dept. of Revenue	www.alaska.gov
AZ	Arizona	Dept. of Revenue	www.az.gov
AR	Arkansas	Dept. of Finance.	http://portal.arkansas.gov
CA	California	Dept. of Finance	www.ca.gov
CO	Colorado	Dept. of Revenue	www.colorado.gov
CT	Connecticut	Dept. of Revenue Services	www.ct.gov
DE	Delaware	Division of Revenue	www.delaware.gov
DC	District of Columbia	Office of Tax & Revenue	www.dc.gov
FL	Florida	Dept. of Revenue	www.myflorida.com
GA	Georgia	Dept. of Revenue	www.georgia.gov
HI	Hawaii	Dept. of Taxation	www.ehawaii.gov
ID	Idaho	State Tax Commission	www.idaho.gov
IL	Illinois	Dept. of Revenue	www.illinois.gov
IN	Indiana	Dept. of Revenue	www.in.gov
IA	Iowa	Iowa Dept. of Revenue	www.iowa.gov
KS	Kansas	Dept. of Revenue	www.kansas.gov
KY	Kentucky	Dept of Revenue	www.kentucky.gov
LA	Louisiana	Dept. of Revenue	www.louisiana.gov
ME	Maine	Revenue Services	www.maine.gov
MD	Maryland	Comptroller of Maryland, Office of the Comptroller	www.maryland.gov
MA	Massachusetts	Dept. of Revenue	www.mass.gov
MI	Michigan	Dept. of Treasury	www.michigan.gov
MN	Minnesota	Dept. of Revenue	www.state.mn.us
MS	Mississippi	State Tax Commission/Dept. of Revenue	www.ms.gov
MO	Missouri	Dept. of Revenue	www.mo.gov
MT	Montana	Dept. of Revenue	www.mt.gov
NE	Nebraska	Dept. of Revenue	www.ne.gov
NV	Nevada	Dept. of Taxation	www.nv.gov
NH	New Hampshire	Dept. of Revenue Admin.	www.nh.gov
NJ	New Jersey	Dept. of Treasury/Div. of Taxation	www.nj.gov
NM	New Mexico	Dept. of Taxation and Revenue	www.newmexico.gov
NY	New York	Dept. of Taxation and Finance	www.ny.gov
NC	North Carolina	Dept. of Revenue	www.nc.gov
ND	North Dakota	State Tax Commissioner.	www.nd.gov
OH	Ohio	Dept. of Taxation	www.ohio.gov
OK	Oklahoma	Tax Commission	www.ok.gov
OR	Oregon	Dept. of Revenue	www.oregon.gov
PA	Pennsylvania	Dept. of Revenue	www.pa.gov
RI	Rhode Island	Dept. of Revenue, Division of Taxation	www.ri.gov
SC	South Carolina	Dept. of Revenue	www.sc.gov
SD	South Dakota	Dept. of Revenue	www.sd.gov
TN	Tennessee	Dept. of Revenue	www.tn.gov
TX	Texas	Comptroller of Public Accounts	www.texas.gov
UT	Utah	State Tax Commission	www.utah.gov
VT	Vermont	Dept. of Taxes	www.vt.gov
VA	Virginia	Dept. of Taxation	www.virginia.gov
WA	Washington	Dept. of Revenue	http://access.wa.gov
WV	West Virginia	State Tax Department	www.wv.gov
WI	Wisconsin	Dept. of Revenue	www.wisconsin.gov
WY	Wyoming	Department of Revenue	www.wyoming.gov

1/ Subject to annual update.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Correcting 1099 Returns

Correcting or Replacing Electronic Information Returns

Corrections: *A correction is an information return submitted by the transmitter to correct an information return that was previously submitted to and processed by IRS/IRB, but contained erroneous information.* For guidance in making corrections to electronic returns, see Part A, Section 8 of **Pub. 1220**. Corrections should only be made to records that have been submitted incorrectly, not the entire file. *If the agency does not file corrections, and cannot obtain an exception, the penalty is \$260 per information return.* Electronic filing is required for 250 or more corrected 1099 returns per type of return.

Replacements: A replacement is an information return file sent by the filer because the CHECK FILE STATUS option on the **FIRE** System indicated the file was bad. *After the necessary changes have been made the file must be retransmitted through the FIRE System.*

Common Electronic Filing Problems

Common problems and non-format errors in filing electronic returns are discussed in Part B, Section 8 of **Pub. 1220**.


Correcting Paper Returns

Guidance for correcting paper returns is provided in Section H of the *General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G)*.

Records Retention

1099 Record Retention Period

Agencies are required to keep copies of Information Returns and supporting documentation for at least 3 years from the due date of filing the returns with the IRS, and at least 4 years if backup withholding was imposed.

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017


Contacts

Internal Revenue Service Contacts

IRS Office of Federal, State and Local Governments (FSLG) at (703) 462-5971 or (859) 244-2449.

- IRS Information Returns Branch (IRS/IRB)
(Formerly called the IRS Martinsburg Computing Center (IRS/MCC))
Hours: 8:30 a.m. to 4:30 p.m. (Monday through Friday Eastern time)
Toll free Number: **1-866- 455-7438**
Direct Number (not toll free): **1-304-263-8700**
E-mail to mccirp@irs.gov. Please do not include SSN's or EIN's on e-mails since this is not a secure line. Allow 10 days to receive a response by E-mail.
FAX for Applications & Waiver Requests: **1-877-477-0572**
Telecommunications Device for the Deaf (TDD): **1-304-579-4827**
- Call (267) 941-1000 for questions relating to the **Form 1042-S, Foreign Person's U. S. Source Income Subject to Withholding.**
- The IRS encourages payers with Internet access to browse the IRS home page for timely filing information and to download publications and forms. The IRS Internet address is www.irs.gov.
- **Caution:** Because the IRS processes paper forms by machines with special optical character recognition equipment, you cannot file with the IRS; the **IRS Form 1096 or Copy A of Forms 1098, 1099, or 5498** that you print from the IRS Web Site or the CD-ROM.
- For forms and publications, call 1-800-TAX-FORM (**1-800-829-3676**).

Continued on next page

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

Contacts, Continued

DOA Contacts **Payroll**-related questions should be addressed to the Director of Payroll Operations by e-mail at payroll@doa.virginia.gov.

All other questions should be addressed to the 1099 Coordinator at (804) 225-3804 or by e-mail to 1099@doa.virginia.gov.

For the latest 1099 changes, access the DOA website at: <http://www.doa.virginia.gov>.

--Click the *Accounting and Reporting* button then select the *Financial Reporting* button and then

--Click the *IRS Information Returns -1099 Reporting* link on the right hand side of the webpage.

Subject Cross References

Cross References

DOA References

CAPP – Cardinal Topic No. 21105, *Vendor Maintenance*


CAPP – Cardinal Topic No. 20319, *Electronic Federal Tax Payment Processing*

CAPP – Cardinal Topic No. 20355, *Purchase Charge Card*

IRS References

General Instructions for Certain Information Returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498, and W-2G).

Publication 1220, *Specifications for Filing Forms 1097, 1098, 1099, 3921, 3922, 8935, 5498, 8935 and W-2G Electronically.*

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

**Suggested
Forms and Job
Aids**

The following can be found on the Cardinal Website, under Statewide Toolbox – Job Aids:


1099 Processing

The following form can be found on the DOA Website, Commonwealth Vendor Group (CVG):

Commonwealth of Virginia Substitute W-9

Additional job aids and training materials may be available on the Cardinal website.


Please note: The Cardinal job aids, training materials and forms on the Cardinal website are not policy of the Department of Accounts and are not part of the Commonwealth Accounting Policies and Procedures Manual (CAPP).

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017


Attachment A—1099 Potentially Reportable Account Codes

Codes The following table presents 1099 Potentially Reportable Account Codes.


POTENTIALLY REPORTABLE ACCOUNT CODES THAT SUPPORTS ONLY FORMS 1099 A, G, AND MISC.			
The following have been identified as potentially 1099 reportable account codes. However, the decision to code a payment as reportable must be based on the specific reporting requirements for the commodity or service and the vendor type.			
CODE	ACCOUNT CODE TITLE	RESTRICTIONS FOR 1099 REPORTING	TYPE OF 1099 (Box Number)
5011220	Salaries, Appointed Officials		1099-MISC (03)
5011230	Salaries, Classified		1099-MISC (03)
5011240	Salaries, Other Officials		1099-MISC (03)
5011250	Salaries, Overtime		1099-MISC (03)
5011280	Salaries, Info Technology Employees		1099-MISC (03)
5011290	Salaries, Overtime IT Employees		1099-MISC (03)
5011340	Specified per Diem Payments		1099-MISC (07)
5011350	Wages & Allowance		1099-MISC (07)
5011360	Work Programs		1099-G (06)
5011390	Special Payments for Academic Services		1099-MISC (07)
5011510	Workers' Compensation Awards		1099-MISC (03)
5011620	Salaries, Annual Leave Balances		1099-MISC (03)
5011630	Salaries, Sick Leave Balances		1099-MISC (03)
5011640	Salaries, Comp Leave Balances		1099-MISC (03)
5012050	Seat Management Services	Services Portion only	1099-MISC (07)
5012110	Express Services		1099-MISC (07)
5012120	Outbound Freight		1099-MISC (07)
5012130	Messenger Services		1099-MISC (07)
5012140	Postal Services		1099-MISC (07)
5012150	Printing Services		1099-MISC (07)
5012170	Telecommunications Services (Non-State)		1099-MISC (07)
5012190	Inbound Freight Services		1099-MISC (07)
5012240	Employee Training Courses, Workshops, and Conferences	Reportable vendors only	1099-MISC (07)
5012260	Employee Training Consulting Services		1099-MISC (07)
5012280	Employee Information Technology Training Courses	Reportable vendors only	1099-MISC (07)
5012310	Clinic Services		1099-MISC (06)
5012320	Dental Services		1099-MISC (06)
5012330	Hospital Services		1099-MISC (06)
5012340	Medical Services		1099-MISC (06)
5012350	Nursing Home Services		1099-MISC (06)
5012360	X-Ray & Laboratory Services		1099-MISC (06)

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

5012380	Other Medical Services	DPB must authorize use of this code.	1099-MISC (06)
5012410	Auditing Services		1099-MISC (07)
5012420	Fiscal Services	Not for Incorporated Banks	1099-MISC (07)
5012430	Attorney Services		1099-MISC (07)
5012440	Management Services		1099-MISC (07)
5012450	Personnel Management Services		1099-MISC (07)
5012460	Public Info. & Pub. Rel. Services		1099-MISC (07)
5012470	Legal Services	Does not include attorney's fees. Attorney's fees are reported in Account Code 1243.	1099-MISC (07)
5012480	Media Services		1099-MISC (07)
5012490	Recruitment Advertising		1099-MISC (07)
5012510	Custodial Services		1099-MISC (07)
5012520	Elect. Rep. & Maint. Services		1099-MISC (07)
5012530	Equip. Repair & Maint. Services		1099-MISC (07)
5012540	Exterminator-Vector Control Services		1099-MISC (07)
5012550	Highway Repair & Maint. Services		1099-MISC (07)
5012560	Mechanical Rep. & Maint. Services		1099-MISC (07)
5012570	Plant Repair & Maint. Services		1099-MISC (07)
5012580	Reclamation Services		1099-G (06)
5012590	Vehicle Rep. & Maint. Services		1099-MISC (07)
5012610	Architectural & Eng. Services		1099-MISC (07)
5012620	Aviation Services		1099-MISC (07)
5012630	Clerical Services		1099-MISC (07)
5012640	Food & Dietary Services		1099-MISC (07)
5012650	Laundry & Linen Services		1099-MISC (07)
5012660	Manual Labor Services		1099-MISC (07)
5012670	Production Services		1099-MISC (07)
5012680	Skilled Services		1099-MISC (07)
5012730	Information Management Design Dev Services (State, other than VITA, & vendors)	For reportable vendors only	1099-MISC (07)
5012740	Computer Hardware Maintenance Services	For Reportable vendors only	1099-MISC (07)
5012750	Computer Software Maintenance Services	For Reportable vendors only	1099-MISC (07)
5012770	Computer operating Services (non-state)	For Reportable vendors only	1099-MISC (07)
5012790	Computer Software Development Services	For Services only, like tailor-made software	1099-MISC (07)
5012810	Moving & Relocation Services	Exclude state employee reimbursements	1099-MISC (07)
5012820	Travel, Personal Vehicle	Exclude state employee reimbursements	1099-MISC (07)
5012830	Travel, Public Carriers	Exclude state employee reimbursements	1099-MISC (07)
5012850	Travel, Subsistence & Lodging	Exclude state employee reimbursements	1099-MISC (07)
5012860	Travel, Supplements & Aid	Exclude state employee reimbursements	1099-MISC (07)
5012970	Late Pmt Penalties for Contractual Services	For pmts that are 1099-Reportable	1099-MISC (07)
5013970	Late Pmt Penalties for Suppl. & Mat'ls	For pmts that are 1099-Reportable	1099-MISC (07)
5014110	Individual Claims & Settlements	Not reportable for criminal info. Comp.	1099-MISC (03)
5014130	Premiums		1099-MISC (07)

Volume No. 1—Policies and Procedures	TOPIC NO.	20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC	Information Returns Reporting
	DATE	December 2017

5014140	Unemployment Comp. Awards	Only pmts to individuals (e.g. paid by VEC)	1099-G (01)
5014160	Payments on Behalf of Individuals	For pmts that are 1099-Reportable	1099-MISC (07)
5014170	Income Assistance Programs		1099-MISC (07)
5014180	Incentives		1099-MISC (03)
5014230	Tuition and Training Aids	Reportable vendors only	1099-MISC (07)
5014420	Payments to Individuals on behalf of local gov't.	Taxable Grants only	1099-G (06)
5014520	Grants to Non Gov. Org.	For taxable grants to reportable recipients	1099-G (06)
5014560	Disaster Recovery Grants to Non Gov. Org.	For taxable grants to reportable recipients	1099-G (06)
5014650	Consulting Cost/Local Programs		1099-MISC (07)
5015210	Computer Peripheral Capital Leases	Excluding maint Services-report in Box 7	1099-MISC (01)
5015220	Comp. Central Processor Cap Leases	Excluding maint Services-report in Box 7	1099-MISC (01)
5015230	Computer Software Capital Leases		1099-MISC (01)
5015240	Equipment Capital Leases	Excluding maint Services-report in Box 7	1099-MISC (01)
5015250	Building Capital Leases	Only pmts for office rent	1099-MISC (01)
5015260	Land Capital Leases		1099-MISC (01)
5015270	Land & Building Capital Leases	Only pmts for office rent	1099-MISC (01)
5015310	Computer Rentals (not mainframe)	Excluding maint Services-report in Box 7	1099-MISC (01)
5015320	Computer Processor Rentals	Excluding maint Services-report in Box 7	1099-MISC (01)
5015330	Computer Software Rentals		1099-MISC (01)
5015340	Equipment Rentals	Excluding maint Services-report in Box 7	1099-MISC (01)
5015350	Building Rentals	Office rent. Parking deck space rentals	1099-MISC (01)
5015360	Land Rentals	Includes parking area rentals on land	1099-MISC (01)
5015370	Land & Building Rentals	Only pmts for office rent	1099-MISC (01)
5015380	Building Rentals – State Owned Facilities		1099-MISC (01)
5015390	Building Rental – NonState DGS Administered		1099-MISC (01)
5015420	Electrical Service Charges		1099-MISC (07)
5015430	Refuse Service Charges		1099-MISC (07)
5015440	Water & Sewer Service Charges		1099-MISC (07)
5015470	Private Vendor Service Charges	Includes expenditures to vendors for eVA service charges	1099-MISC (07)
5015970	Late Pmt. Penalties for Cont. Charges	For pmts that are 1099-Reportable	1099-MISC (07)
5021110	Acquisition, Property	Only acquisitions of secured property	1099-A (04)
5021120	Acquisition. Rights of Way	Only acquisition of secured property	1099-A (04)
5021130	Acquisition, Waterways & Improvements	Only acquisition of secured property	1099-A (04)
5021310	Site Improvements	Exclude pmts totally for materials	1099-MISC (07)
5021320	Site Preparation	Exclude pmts totally for materials	1099-MISC (07)
5021970	Late Pmt Penalties for Prop. & Improvements	For pmts that are 1099-Reportable	1099-MISC (07)
5022280	Educational & Cultural Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022380	Electronic & Photo. Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022480	Medical & Laboratory Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022580	Motorized Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022680	Office Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022780	Specific Use Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)

Volume No. 1—Policies and Procedures	TOPIC NO. 20320 – Cardinal
Section No. 20300—Cash Disbursements Accounting	TOPIC Information Returns Reporting
	DATE December 2017

5022880	Stationary Equip. Improvements	Exclude pmts totally for materials	1099-MISC (07)
5022970	Late Pmt. Penalties for Equip.	For pmts that are 1099-Reportable	1099-MISC (07)
5023110	Acquisition, Bridges	Only acquisitions of secured property	1099-A (04)
5023120	Acquisition, Buildings	Only acquisitions of secured property	1099-A (04)
5023130	Acquisition, Highways	Only acquisitions of secured property	1099-A (04)
5023140	Acquisition, Water Ports	Only acquisitions of secured property	1099-A (04)
5023210	Construction, Bridges	Exclude pmts totally for materials	1099-MISC (07)
5023220	Construction, Buildings	Exclude pmts totally for materials	1099-MISC (07)
5023230	Construction, Highways	Exclude pmts totally for materials	1099-MISC (07)
5023240	Construction, Water Ports	Exclude pmts totally for materials	1099-MISC (07)
5023270	Construction, Bridges, Highways Improvements	Exclude pmts totally for materials	1099-MISC (07)
5023280	Construction, Buildings Improvements	Exclude pmts totally for materials	1099-MISC (07)
5023970	Late Pmt. Penalties for Plant & Improvement	For pmts that are 1099-Reportable	1099-MISC (07)
5031110	Bond Issuance Expenditures		1099-MISC (07)
5031120	Bond Issuance Fees		1099-MISC (07)