

1099-MISC REPORTING CORRECTIONS & REMINDERS

DOA – State Accounting
Bureau

November 2014

IRS Circular 230 Notice

- To ensure compliance with requirements imposed by the IRS, any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the IRS code.



Objectives

- Importance of 1099s
- How/When to Report Payments on SABHRS
- Reportable vs Non-Reportable payments
- Which box to use
- Which form to use
- Requirements for filing
- IRS CP-2100 Report
- Miscellaneous Information - Frequently Asked Questions

Agencies Responsible for

- Correctly identifying which payments are reportable (for any 1099 return)
 - Use SABHRS for 1099-MISC payments
- IRS reporting on NON 1099-MISC returns
 - Identifying what IRS return/form is needed
 - When/How IRS return is timely filed
 - Providing payee copy of IRS return

WWU Responsible for....

- Processing 1099-MISC and 1042-S returns with IRS
 - Based on payments identified by agencies as being reportable
 - Consolidating all 1099-MISC payments
- Coordinating CP-2100 notice responses
- Coordinating IRS proposed penalty responses

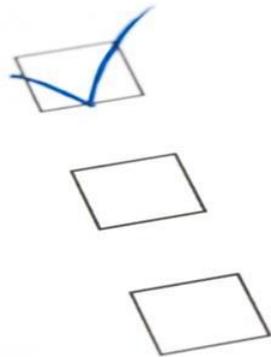
Importance of 1099's.....



IRS Penalties –

- Failure to file a correct return
 - Name/TIN mismatch
 - \$100/ return up to max of \$1.5 million/year
- Failure to file, but filing correction w/in 30 days
 - \$30/return up to max of \$250,000
- Failure to file, but filing correction by Aug 1st
 - \$60/return up to max of \$500,000
- Failure to furnish payee w/ correct statement
 - \$100/statement up to max of \$1.5 million/year

How/When to report on SABHRS



1099 MISC Deadlines and Dates

- January 16th 2015
 - Last day for agencies to make 1099 adjustments for 2014 – access will be suspended at noon this date.
 - **Interface 1099 MISC files must be submitted by noon.**
- January 28th 2015
 - 1099 MISC forms are mailed to payees
- February 27th 2015
 - 1099 MISC File is sent to IRS
- March 2nd 2015
 - Agencies may make adjustments for calendar year 2015

How 1099 MISC payments are reported

- Mark voucher at time of payment
- Manual Adjustments
- Adjustments done by WWU
 - Correction/Duplicate 1099 Information form
- Interface 1099 data files

Manual Adjustments in SABHRS

- Go to Withholding Adjustment Screen:
 - Main Menu>Vendors>1099/Global Withholding>Maintain>Adjust Withholding
- Enter Set ID
- Enter Vendor ID
- Hit search



Withholding Adjustment

Enter any information you have and click Search. Leave fields blank for a list of all values.

Find an Existing Value

Limit the number of results to (up to 300):

Vendor SetID: =

Vendor ID: begins with

Vendor Location: begins with

[Basic Search](#)

[Save Search Criteria](#)

Adjustments for Calendar Year 2014

- Enter Business Unit
- Enter Start Date (01-01-2014)
- Enter End Date (12-31-2014)
- Click Search

Withhold Adjustments

Vendor: STATE 0000 000002

Search Criteria

Business Unit:	<input type="text" value="6901X"/>	<input type="text"/>	Jurisdiction:	<input type="text" value="FED"/>	Start Date:	<input type="text" value="01012013"/>
Entity:	<input type="text" value="IRS"/>	<input type="text"/>	Class:	<input type="text"/>	End Date:	<input type="text" value="12312013"/>
Type:	<input type="text" value="1099"/>	<input type="text"/>				

Adjustments

[Personalize](#) | [Find](#) | [View /](#)

Main Information

Adjustment Reason



Type	Short Name	*Business Unit	*Class	Basis Amt	Payment Date	Method	Payment Reference
L	Legacy	<input type="text"/>	<input type="text"/>	0.000	<input type="text" value="12/13/2013"/>		

Changing Dollar Amount

- Add row (+) on line to be adjusted
 - Business Unit must be same as original payment
 - Change amount
 - Make positive if adding
 - Make negative if removing
 - Change date to original payment date

Changing Dollar Amount (cont)

- Go to Adjustment reason TAB:
 - Type Reason
 - Example “payment not reportable” or “marked in error”
 - Be sure to include your name @ BU
 - Save

Change Withholding Box

- Add row (+) on line to be changed
 - Make sure BU is the same as original payment. Keep the same BOX #. Enter original payment amount as negative. Change date to same as original date.
- Add row (+) to the above line
 - Make sure BU is the same as original pmt.
 - Change Box #
 - Enter amount as positive
 - Change Date to original date

Change Withholding Box # (cont)

- Fill out adjustment reason TAB
 - Wrong box # per your name BU, DATE
- Save

Withhold Adjustments

Vendor: STATE 0000: [REDACTED] 000001 JOHN S [REDACTED]

Search Criteria

Business Unit: 6501Z

Entity: IRS Jurisdiction: FED Start Date: 01/01/2012

Type: 1099 Class: [REDACTED] End Date: 12/31/2012

Adjustments Customize | Find | View 2 | First 1-13 of 13 Last

Main Information Adjustment Reason

Type	Short Name	*Business Unit	*Class	Basis Amt	Payment Date	Method	Payment Reference	Posted Date		
O	Original	6501Z	01	185.00	03/01/2012	System Check	0022173572	03/01/2012	+	-
L	Legacy	6501Z	01	-185.00	03/01/2012			12/13/2012	+	-
L	Legacy	6501Z	07	185.00	03/01/2012			12/13/2012	+	-

Adjustments Customize | Find | View 2 | First 1-13 of 13 Last

Main Information Adjustment Reason

Creation Date	User ID	Description		
03/01/2012	CA2099		+	-
12/13/2012	CM0203	Change Class per A Smith @6501Z* 12/13/12	+	-
12/13/2012	CM0203	Change Class per A Smith @6501Z* 12/13/12	+	-

Adjustments done by WWU

- This is only applicable for prior years and during the consolidation process (Jan 17th – Feb 25th)
- Send WWU this form:
 - 1099 Form- Correction/Duplicate (revised 1/2006)
 - Found online at:
<http://accounting.mt.gov/accountingformsinfo.mcp>
- Form must be signed

click for more details



DEPARTMENT OF ADMINISTRATION
ACCOUNTING BUREAU
PO BOX 200102
HELENA, MT 59620-0102

**CORRECTION/
DUPLICATE
1099
INFORMATION**

1) Agency Number/Name [REDACTED]	2) Agency Contact [REDACTED]	3) Agency Phone Number(s) Voice [REDACTED] Fax [REDACTED]
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4) Tax Year (to be adjusted) [REDACTED]

5) Action (check one) Correction/Adjustment Duplicate/Copy

6) Withholding box (original) [REDACTED] (adjust to) [REDACTED]

7) \$ Amount was [REDACTED] \$ Should be [REDACTED] \$ Amount to be adjusted [REDACTED]

8) Vendor ID (10 digits) [REDACTED]	9) Tax ID Number (9 digits) [REDACTED]	10) Business Unit (original) [REDACTED] Business Unit (adjust to) [REDACTED]
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11) Vendor Name
[REDACTED]

12) Vendor Original Address
[REDACTED]
[REDACTED]
[REDACTED]

13) Vendor Correct Mailing Address
[REDACTED]
[REDACTED]
[REDACTED]

14) Reason [REDACTED]

15) Agency Authorization	Authorized Signature	Title	Date
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To Be Completed by Department of Administration			
D of A Approval	Approved	Authorized Signature	Date
	Not Approved		
	Business unit	Withholding Box	\$ Amount Adjusted
	Comments		

1099-MISC Reportable vs NonReportable.....



1099-MISC Reportable Entities ...

- Individuals/Sole Proprietorships
- Partnerships
- LLC/LLP
- Trusts/Estates
- Corporations, in limited instances
- Employees get W-2, not 1099-MISC
 - Travel reimbursements taxable to employee need to be included on W-2, check w/SHRD for further info

1099-MISC Reportable Entities (continued)

Favorites ▾ Main Menu ▾ > Vendors ▾ > Vendor Information ▾ > Add/Update ▾ > Vendor

MT
SABHRS

Search

DO NOT USE THIS TO DETERMINE IF PAYMENTS TO THIS VENDOR ARE REPORTABLE.

Identifying Information | Address | Contacts | Location

SetID: STATE *Vendor Name 1:

Vendor ID: NEXT Vendor Name 2:

*Vendor Short Name:

*Classification: Outside Party

HCM Class:

*Persistence: Regular

*Vendor Status: Approved Withholding

Open For Ordering

VAT Registration

Vendor Relationships

Corporate Vendor InterUnit Vendor

Corporate SetID: STATE InterUnit Vendor ID:

Corporate Vendor ID: NEXT

Create Bill-To Customer

Create Bill To Customer

Non-Reportable Entities ...

- Governments
- Tax-Exempt Entities
- Corporations
 - Unless for Medical, Legal Services or fish purchases for resale

Reportable Payments Include...

- Services
- Consultants
- Expert witness testimony
- Legal services
 - Unless specifically exempted
- Medical services
- Non-Employee compensation
- Rent
- Training

Exempt Payments ...

- Purchase of goods
- Insurance premiums
- Legal damages for:
 - Personal physical injury
 - Medical expense reimbursement
 - Property damage claims

Non-Exempt Corporate Payments

- Medical/health care services reportable in Box 6
- Attorney's fees reportable in Box 7
- Gross proceeds paid to an attorney reportable in Box 14

1099-MISC Payment when ...

- Payment is to a reportable entity, and
- Payment is subject to reporting
 - If in doubt, it is recommended that we report
 - No penalty for reporting a non-reportable payment
- If payment is reportable mark it for withholding no matter what the amount of the payment is. The State consolidates all payment from all Agencies.

Interface 1099 MISC Data Files

- Send file to SABHRS between January 1 and January 16, 2015
- Information for file layout can be found in SABHRS documentation under Interface Record Definitions
 - For more information contact Brian Buhr 444-4337
- Payment Plus payments are to be excluded from your file

1099-MISC Consolidation Process

- All reportable payments are combined to produce one 1099-MISC for each vendor when applicable:
 - Payments marked 1099 applicable on SABHRS
 - 1099 Adjustments on SABHRS
 - Payments made on our behalf interface files

Consolidation Process (cont.)

- Agency 1 paid \$60 reportable in Box 3
- Agency 2 paid \$200 reportable in Box 3
- Agency 3 paid \$500 reportable in Box 3

- As individual payments, they would not be reportable as they are less than \$600; however, with consolidation process a single 1099 will be issued with \$760 reported in Box 3

Payments made on our behalf

- Montana is liable for 1099-MISC reporting when:
 - We have management or oversight:
 - To who payments are made
 - When disbursements are made
 - Who qualifies for disbursements
 - Amount of disbursements
- Payment interface file should be supplied to SABHRS

Payment Plus Payments

- Reported separately by US Bank and not included in the 1099-MISC sent by the State of Montana.
- Taken care of automatically by SABHRS unless the agency interfaces 1099-MISC data into SABHRS.

AGENCIES THAT INTERFACE 1099-MISC DATA INTO SABHRS:

- Department of Agriculture - Hail
- Department of Revenue – Unclaimed Property
- Department of Public Health & Human Services – AWACS, CAPS & Medicaid
- State Fund

These four interfacing agencies will access the query MTAP_PPLUS_PAYMENTS for a list of their agency's Payment Plus payments. They will use this list to compare to payments included in the 1099-MISC file to be interfaced into SABHRS.

The screenshot shows a web application interface with a menu bar (File, Edit, View, Favorites, Tools, Help) and a toolbar with icons for home, RSS, email, print, page, safety, tools, and help. The main content area is titled "MTAP_PPLUS_PAYMENTS - MTAP_PPLUS_PAYMENTS" and contains a search form with the following fields:

- Payment Dt From:
- Payment Dt To:
- Pay Status Like:

Below the search fields is a yellow button labeled "View Results".



Any reportable payments that appear in the list from this query are to be deleted from the 1099-MISC data that your agency sends to SABHRS.

These payments will be reported by US Bank and they must not also be reported by the State.

Which box to use....



Box 1 – Rental Payments

- Rental/Operating Lease Payments
 - Land
 - Buildings
 - Offices (unless paid to real estate agent)
 - Conference rooms
 - Equipment
 - Rental assistance payments to property owners
- 1099 issued if total \geq \$600
 - Payments for storage exempt from 1099 reporting

Lease/Easement Payments

- Operating Lease – Considered as “Rent” by IRS
 - Item generally returned to lessor at end of lease
- Capital Lease – Considered as “Purchase of Goods” by IRS
 - Item generally owned by lessee at end of lease
- Easements
 - \geq 30 years – Reported on 1099-S
 - $<$ 30 years – Reported on 1099-MISC
- See MOM Policy 335 – Capital Assets
 - Operating vs Capital lease definitions

Interest on Lease Payments

- If Capital Lease payments include interest, the interest portion of the payment should be reported on form 1099-INT if the amount paid totals \$600.00 or more for the year and it is being paid to a reportable entity.

Box 2 – Gross Royalty Payments

- Generally payments for use of intellectual property
- Report on 1099-MISC if total \geq \$10
- Does not include:
 - Surface royalties (Box 1)
 - Oil/Gas working interest payments (Box 7)
 - Timber royalties under a pay-as-cut contract (1099-S)

Box 3 – Other Income

- Items not specifically reportable in other boxes
- Reportable damages
 - Punitive
 - Nonphysical injury
 - Discrimination/defamation
- FMV of awards/prizes not for services performed
- Honorariums
- 1099 issued if total \geq \$600

Box 3 – Other Income (cont.)

- Legal Damages not reportable in Box 3:
 - Damages received due to personal physical injury or physical sickness
 - Damages that do not exceed the amount paid for medical care for emotional distress
 - Property Claims

Box 4 – Backup Withholding

- Any amount of federal income tax that has been withheld from payments during the year is to be reported in box 4.

Box 6 – Medical or Health Care Service Payments

- Doctors/Dentists
- Counselors
- Home health care workers
- Clinics/Hospitals/Nursing homes
- Medical billing services
- 1099 issued if total \geq \$600
- **CORPORATE EXEMPTION DOES NOT APPLY**

Box 6 – Non-reportable Health payments

- Health insurance premiums
- Prescription drugs
- Medical goods that are separate from services
- For “Pure” scientific research w/o providing any illness treatment

Box 7 – Nonemployee Compensation

- Bonuses
- Commissions
- Nonemployee professional/technical services or taxable fringe benefits
- Expert witness fees
- Legal fees to attorneys in course of business (applies to Corporations)
- Purchases of fish for resale (applies to Corporations)
- FMV awards/prizes for services performed
- Payment for repair parts/services, if parts incidental to repair
- Warranty Coverage
- 1099 issued if total \geq \$600

Box 11 – Foreign tax Paid

- New in 2013
- Deleted in 2014. This information is to be reported on Form 8966, Foreign Asset Tax Compliant Act Report.

Box 12 – Foreign Country or U.S. Possession

- Added in conjunction with Box 11 in 2013
- Deleted in conjunction with Box 11 in 2014

Box 14 – Gross Proceeds paid to Attorney/Law Firm

- Gross proceeds paid directly to attorney
 - Reportable **even if attorney is a corporation**
 - Includes amount paid for fees, if cannot be separated from settlement
- Payment is jointly payable to attorney and client
 - Full amount must be in Box 14 for attorney

Payments to Claimant/Attorney

- Need to have some idea as to what the payment is being made for (some reportable/some not)
- May need to know TIN for both Claimant(s) and Attorney, when reportable
 - If not, Backup Withholding applies
- If paid to employee/previous employee, may be W-2 applicable check w/SHRD

Claimants/Attorneys (cont.)

- Payments not reportable if:
 - For damages received due to personal physical injury or physical sickness
 - For damages that do not exceed the amount paid for medical care for emotional distress
 - For property claims

Claimants/Attorneys (cont.)

- Reportable payments **always pertain to punitive damages**
 - Defamation
 - Discrimination
 - Emotional injuries not arising from physical injuries
- **Corporate exemption does not apply**

Payments to Attorneys

Box 7 Reportable

- Services performed in course of business for us (nonemployee)
- Corporate exemption does not apply
- Interest reported on 1099-INT (agency does)

Box 14 Reportable

- Services not performed in course of business for us
- Corporate exemption does not apply
- Interest reported on 1099-INT (agency does)

Other attorney payments not reportable (Box 14) ...

- Attorneys acting as closing agents in real estate transactions
- Attorneys appointed by the federal bankruptcy court to act as trustee

Multiple 1099's for same payment? YES

- If payment to a claimant is taxable, but is paid to the attorney –
 - Reported in Box 14 in regard to the amount paid to the attorney

 - Reported in Box 3 in regard to the claimant(s)
 - Must be added by agency to SABHRS as an adjustment

Pay Both Claimant & Attorney

- If a claimant is awarded \$100,000 for Punitive Damages:
 - Attorney paid \$30,000 (separate check)
 - At time of payment mark Box 14 for the amount of \$30,000 paid to the Attorney.
 - Claimant paid \$70,000 (separate check)
 - At time of payment mark Box 3 for the amount \$70,000.00
 - Add in Withholding Adjustment Screen in Box 3 the amount of \$30,000 that was paid to the attorney. Total to report in Box 3 for Claimant is \$100,000.00.

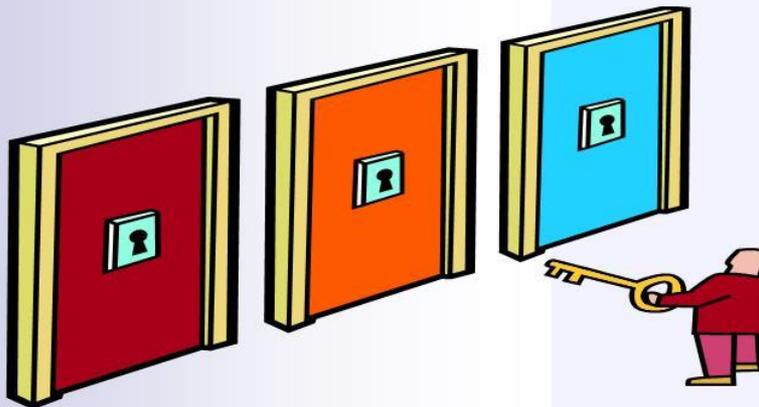
Beneficial Owner of Payments

- Payee does not receive payment
- Payment made to 3rd party on behalf of payee
- Payment would have been reportable had it been paid to payee
- 1099-MISC required to be issued to payee
- 1099 Adjustment required to be input into SABHRS

Beneficial Owners – 1099 Adj's

- When a reportable payment is not made to the payee, but assigned to someone else
- Payment was offset or partially offset
- Payment garnished by non-federal bankruptcy trustee
- Payment for claimant payable to attorney, when taxable

Which form to use....



Informational Forms Include:

- 1099-C Cancellation of Debt
- 1099-G UI, Income Tax Refunds, Taxable Grant Payments
- 1099-INT Interest payments pertaining to reportable legal settlements/Interest on Lease Obligations
- 1099-R Pension Payments
- 1099-S Proceeds from Real Estate Transactions, including easements and Royalty Pymts
- W2-G Gambling Winnings
- 1042-S Income Paid to Foreign Entities

Forms Filed by Warrant Writers

- 1099-MISC
- 1042-S
- Agencies are responsible for ensuring compliance for all other IRS returns:
 - Understanding applicable IRS requirements (amounts / due dates)
 - Getting proper supporting documentation
 - Timely filing with Vendor / IRS
 - Maintaining documentation for at least 5 years after vendor becomes inactive

Requirements for filing.....



TIN & W-9/W-8 Required for Vendors

- Per MOM 330 Section XV – Vendors
- **Must have a valid TIN**
 - Unless Single Payment Vendor Voucher functionality approved by State Accounting Bureau
- W-9/Substitute W-9 required to be on file
 - For US persons or corporations
- Original W-8 required to be on file
 - For foreign individuals or corporations

Substitute W-9 Requirements

- Per IRS regulations must include language to the effect that payee is signing under penalties of perjury that:
 - TIN is correct
 - Payee is not subject to backup withholding
 - Payee is US person
- Can be faxed
- Recommend MT Substitute W-9 be used

W-8 Forms

- Per State policy, WWU must have an original in order to update or create a vendor. However, this policy is currently being updated
- Payee needs to determine which one needs to be completed
- All W-8 forms and related instructions for completion can be found at IRS.gov

Vendor Info Records Mgmt

- Now required per policy to be kept for at least 5 years after vendor becomes inactive
- Agencies need to keep all W-9/W-8 forms for interface vendors
- WWU will keep W-9/W-8 for vendors entered by our office

Destruction of Original W-9

- Originals can be destroyed if scanned if IRS requirements have been met:
 - Procedures to maintain integrity of W-9 data
 - Retained image must clearly show info and signature on form
 - Must have an indexed retrieval system
 - Must be able to print a hard copy
 - IRS has authority to test/review your system

Backup Withholding...

■ Required -

- When taxpayer fails to furnish TIN (no W-9)
- When IRS notifies Montana payee TIN is incorrect and taxpayer fails to respond to B Notice
- When IRS notifies payer of payee underreporting
- Payee TIN certification failure

Backup Withholding (cont...)

- 28% of payment
- If Montana fails to report a reportable payment, we are liable for backup withholding requirements for each required 1099 + interest + penalty
 - This penalty will be passed onto each agency that failed to mark the appropriate payments as 1099 applicable

Timely Payment

- Payment is timely if made per applicable contract or agreement guidelines
- If no contract or agreement exists, payment is timely within 30 days of:
 - (whichever is later)
 - Receipt of properly completed invoice; or
 - Per legal, when required W-9/W-8 must be received
 - Receipt of supplies or services
- MCA 17-8-242

Vendor Format

Name 1	Name 2	Address 1	Address 2
Legal Name as registered with IRS (name that matches TIN)	Second Name or DBA	Address provided on W-9. (address on file with IRS)	Billing Address/Additional Address
Format: First Middle Last No Punctuation or Special Characters except hyphen or ampersand.		Will be checked against FINALIST	

Vendor “Inc” w/Foreign Address

- Need to verify that on W-9 they are a US corporation
 - If US corporation – corporate exemption applies
 - If not US corporation – need W-8
 - May be subject to 30% withholding depending on country of origin

IRS CP-2100 Report (Name/TIN Mismatch)



Processing the CP-2100

- WWU has begun sending the appropriate B-Notice to each entity on the IRS CP-2100 list.
- WWU will update the SABHRS vendor file per indicated changes
- Agencies that interface in to SABHRS will be sent copies of W-9s received in response to B-Notices.
- Agencies will need to make any necessary corrections in their system.

Miscellaneous Information – FAQs



What is an Accountable Plan

- Travel paid under accountable plan is not reportable if:
 - Business Purpose
 - Receipts required (except w/ meals at \leq IRS rate)
 - Submitted timely
 - If money is advanced, any unused amount must be returned
 - Is not a personal expense

Payments to LLCs or Companies

- Most are taxed as individuals or partnerships, thus corporate exemption does not apply
- Reportable entity for 1099 purposes
 - If truly treated as corporation for tax purposes, need to supply IRS determination letter
 - MT is not penalized for reporting them if IRS letter is later provided

Individual to “S-Corp” midyear

- For services performed prior to becoming a S Corp –
 - Is to be reported on 1099 for individual
- For services performed after becoming a S Corp –
 - 1099 Reportable to “S” Corp
 - Not reportable if IRS treats as “C”
 - Unless for legal or medical/healthcare services

Stipends versus Honorariums

Stipends

- To defray costs
- Examples
 - Tuition
 - Fees
 - Room/Board
- NOT REPORTABLE

Honorariums

- Payment w/ no fixed price
 - Special service
 - Distinguished achievement
- Examples
 - Payment to speaker
 - Payment to performer
- ARE REPORTABLE

NonCash “Payments”

- To nonemployees:
 - FMV of gift is reportable
 - Box 3 – if services not performed
 - Box 7 – if services performed
 - Adjustment to SABHRS is needed by agency
- To employees:
 - Not 1099-MISC applicable
 - Please check w/SHRD for W-2 applicability

Deceased employee's wages

- If paid to estate:
 - Reported on 1099 in name/TIN of estate

- If paid to beneficiary:
 - Reported on 1099 in name/TIN of beneficiary

P Card Payments

- Reportable by merchant bank not State
- Using a P card is discouraged when paying foreign vendors
 - If P card is used – a W8 must be collected and withholding requirements still apply

Foreign Vendors

- If you obtain a legitimate TIN from a foreign vendor, you can include that in the vendor file
 - Please do not add random numbers if TIN is not provided

Contact us

■ Email @

- DOA State Accounting

■ Phone

- 406-444-3133 (Dulcie)
- 406-444-5584 (Kristin)
- 406-444-5688 (Austen)

