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MEMORANDUM

TO: All State Agencies
ATTN: Accounting Supervisors

FROM: D. Clark Partridge, State Comptroller

DATE: January 7, 2005

SUBJECT: 1099-MISC Reporting for calendar year 2004

The General Accounting Office (GAO) is responsible for compiling 1099 information from State Agencies, then printing and mailing 1099-MISC Forms to recipients. The GAO then files 1099 information returns with the IRS. It is very important that all State Agencies verify their vendor payments with the 1099 Master Report (DAFM953U) and report any additions, deletions and changes needed to the GAO.

The 1099-MISC Forms for calendar year 2004 will be printed on January 24, 2005 and recipients will be mailed their copies no later than January 31, 2005. Prior to completion of the 1099 forms, the GAO relies on all State Agencies to provide complete and accurate information for all vendors paid by their agency.

The DAFM953U report is currently available on Control-D in AFIS. This report includes the name and Taxpayer Identification Number (TIN), which is a Social Security Number (SSN) or Employer Identification Number (EIN), the type of payment (by number-corresponding to the boxes on 1099-MISC Form), and the amount of payments totaled by type of payment made by your agency. **Please contact your AFIS liaison as soon as possible if your agency does not have Control-D access.** The following procedures must be followed in order to ensure the most accurate information is distributed to the recipients:

1. Determine if each vendor is 1099 reportable and if the payments on the DAFM953U are 1099-MISC reportable payments.

Reportable vendors include sole proprietors, individuals (including employees who do business with the State), partnerships, and all providers of medical services (including corporations), professional corporations, limited liability partnerships, trusts, and receiverships.

Corporations that do not provide medical or legal services are exempt from 1099 reporting, as are governments. Payments to these exempt entities should not be included in the DAFM953U report.

Reportable payments include those for services, whereas payments for goods are not. Payments are 1099-MISC reportable only when payments are made in the course of your trade or business for services rendered. Payments for merchandise, telegrams, telephone, freight, storage, and similar items are **not required** to be reported on 1099-MISC Form. Personal payments, such as an employee whose only payments were reimbursements for travel or for purchases made for the employing agency, should not be reported. Although individuals are reportable, these reimbursements are not reportable payments.

However, if they were paid under a 1099 reportable Comptroller Object (COBJ), they will appear on the DAFM953U report. The best practice for an agency is to pay for items directly and not allow employees to personally make payments on behalf of the agency.

- A. If a vendor is on the report and should not be because it is a non-reportable entity (government, corporation, etc.) you should:
 - 1. Request a new Substitute W-9 form to be filled out by the vendor if it is set up incorrectly in the vendor system. This new Substitute W-9 form should be signed by both the vendor and the agency authorized signer. The GAO will then change the vendor type, ownership code and 1099 indicator accordingly for the vendor.
 - 2. Prepare a GAO-94 form deleting the vendor from the 1099 database. Please refer to Form GAO-94 instructions.
- B. If a vendor is on the report due to an error in selection of the COBJ, prepare a GAO-94 deleting the vendor from the 1099 database.

Remember to indicate the reason for the correction on the GAO-94 form.

***** Only the above corrections under Section B can be indicated directly on the DAFM953U report. Please indicate these corrections by highlighting the record and providing a reason for the deletion. Please do not "cross off" records that need to be deleted, this makes it difficult to read and process the correction. If the DAFM953U report is used to make these corrections, it must include an agency contact with their phone number and be signed by an authorized signer.**

2. Determine if every vendor is 1099 reportable entity and received reportable payments is on the report.

Example: Is Missy Laneous, a vendor who receives monthly payments for providing a service, not included on the report? Missy, an individual, is a reportable vendor and the payments were reportable payments ; therefore, she should be on the report.

- A. If a vendor is not on the report and should be because it is a reportable entity (individual, medical corporation, partnership, etc.) you should:
 - 1. Request a new Substitute W-9 form to be filled out by the vendor. This new Substitute W-9 form must be signed by both the vendor and the agency authorized signer. The GAO will then change the vendor type, ownership code and 1099 indicator accordingly for the vendor.
 - 2. Prepare a GAO-94 form adding the vendor from the 1099 database. Please refer to Form GAO-94 instructions.
- B. If a vendor is not on the report due to an error in recording the COBJ, prepare a GAO-94 adding the vendor to the 1099 database.

Remember to indicate the reason for the correction on the GAO-94 form.

3. Verify name is correctly formatted.

1. Verify that business names DO NOT have “DBA” or “THE” as the first word.
2. Verify that all sole proprietorships have the owner’s name on the first line; the business name can be on the first address line.
3. Verify that there is no punctuation or extra space in the vendor’s name.
4. Verify that all vendors do not have a title in front of their name.

INCORRECT FORMAT	CORRECT FORMAT
Dr. I. M. Normal	I. M. Normal MD
The Arizona Company	Arizona Company
Hart N. Sole Proprietorship Hart N. Sole	Hart N. Sole DBA Hart N. Sole Proprietorship
Ms. Dee Boat	Dee Boat

If a name is not properly formatted you should:

1. Request a new Substitute W-9 form to be filled out by the vendor if the vendor name has changed. This new Substitute W-9 form must be signed by both the vendor and the agency authorized signer. The GAO will then change the name accordingly for the vendor.
2. If the vendor name has not changed but is set up incorrectly in AFIS due to spelling or format, submit a screen print of the existing vendor indicating the new change with back up documentation supporting the correction. The screen print must include your agency, agency contact person, and contact phone number. Backup documentation can be an invoice, letterhead, business card, etc., showing the correct information.
3. Prepare a GAO-94 form correcting the vendor name format in the 1099 database. Please refer to Form GAO-94 instructions.

Remember to indicate the reason for the correction on the GAO-94 form.

4. Verify the amount and type of payment to the vendor is correct.

Please remember the amounts shown on the DAFM953U report are not necessarily the amounts issued to the recipients on the 1099-MISC. If any other agencies or universities issued payments to the same recipient, the total amount will be included on the 1099-MISC Form. If the amount or type (box number) is not correct, prepare a GAO-94 to change the amount or type (box number).

Remember to indicate the reason for the correction on the GAO-94 form.

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Please visit the GAO Web Site at WWW.GAO.STATE.AZ.US under “Vendor and ACH Info.” for applicable forms. The forms that may be applicable for the 1099 process include: Vendor file Instructions, Substitute W-9 Form (Interactive), Substitute W-9 Instructions, GAO-94 (1099-MISC Correction Form), GAO-94 Instructions, and IRS 2004 Instructions for 1099-MISC Form.

Please submit all Vendor file corrections and GAO-94 forms to the GAO by **January 19, 2005** to ensure corrections are input into the database before the 1099-MISC Forms are printed and mailed. The State can be assessed a penalty for each 1099-MISC Form that is incorrectly reported. When submitting any of the attached forms to the GAO, please clearly indicate on the envelope “1099 vendor corrections,” so the corrections can be properly and timely routed.

If you have any questions concerning the forms or other related 1099-MISC issues, please contact Brian Nguyen at (602) 542-5554, or your GAO Liaison.

We look forward to working with you and your agency in order to make this 1099 season as smooth as possible.

Thank you.

DCP/dc/bn