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TO: All State Agencies
ATTN: Accounting Supervisors

FROM: D. Clark Partridge, State Comptroller *D.C.P.*

DATE: January 4, 2012

SUBJECT: 1099-MISC Reporting for Calendar Year 2011

The General Accounting Office (GAO) has prepared the 1099 Master Report (DAFM953U) that shows tax reportable vendor payments made by State agencies. **The report is now available for each agency to access on Control-D.** This report includes the name and Taxpayer Identification Number (TIN) of the vendor. The TIN is either a Social Security Number (SSN) or Employer Identification Number (EIN). The report also includes lines for each type of payment (corresponding to the boxes on the 1099-MISC form) made to a particular vendor by a single agency, as well as the corresponding amount of payments issued during the tax year, totaled by type of payment.

The GAO is responsible for compiling all 1099 information from State agencies and sending the information to American Business Solutions who will print and mail the 1099s. The 1099-MISC forms for calendar year 2011 will be mailed to their recipients no later than January 31, 2012. 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 GAO is also responsible for filing all State of Arizona 1099 information returns with the IRS. It is very important that all State agencies verify their vendor payments with the DAFM953U and report any additions, deletions, or changes needed to the GAO in a timely manner.

Please follow these procedures in order to ensure the most accurate information is distributed to the 1099-MISC recipients:

- 1. Determine if each vendor on the DAFM953U is a 1099 reportable entity, and that no vendors were excluded that are considered 1099-MISC reportable.**

Reportable vendors include sole proprietors, individuals (including employees who do business with the State), partnerships, all providers of medical services (including corporations),

professional limited liability companies (PLLCs), limited liability partnerships (LLPs), limited liability companies (LLCs), 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.

A. If a vendor is on the report and should not be because it is a non-reportable entity (government, corporation, etc.), you should prepare a 1099-MISC Correction form (GAO-94) so that the vendor may be deleted from the 1099 database. Please refer to the GAO-94 form instructions. If the 1099 indicator on the Vendor Profile (34 screen) is set to “Y”, then:

Request a new State of Arizona Substitute W-9 form (GAO-W-9) to be filled out by the vendor if it is set up incorrectly in the AFIS vendor system. This new GAO-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.

B. If a vendor is not on the DAFM953U report and should be because it is a reportable entity (individual, medical corporation, partnership, limited liability company, etc.), prepare a 1099-MISC Correction form (GAO-94) so that vendor may be added to the 1099 database. Please refer to the GAO-94 form instructions. If the 1099 indicator on the Vendor Profile (34 screen) is set to “N”, then:

Request a new State of Arizona Substitute W-9 form (GAO-W-9) to be filled out by the vendor if it is set up incorrectly in the AFIS vendor system. This new GAO-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. If a vendor is considered a 1099 reportable entity, verify that payments issued are considered tax reportable payments.

Payments for services rendered in the course of your trade or business are considered 1099-MISC reportable. Payments for goods are not considered to be reportable.

Payments for merchandise, telegrams, telephone, freight, storage, and similar items are **not required** to be reported on a 1099-MISC form. Personal payments, such as payments to an employee, generally should not be reported. **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.** Although individuals are reportable entities, these types of reimbursements are not considered to be reportable payments. Employee travel reimbursements should be processed through the HRIS system. In order to correct vendor travel reimbursements, additional certification forms will need to be submitted to the GAO. Please contact your GAO liaison with questions or to obtain the necessary certification forms. Also, remember that same-day meal reimbursements to vendors are considered 1099-MISC reportable.

Example: Missy Smith is a vendor who receives monthly payments for providing a service to the State of Arizona. Missy, an individual, is a reportable vendor and payments made to her

were reportable payments; therefore, the payments to this vendor should be included on the DAFM953U report.

3. If a vendor is on the report due to an error in recording the Comptroller Object (COBJ), prepare a GAO-94 form requesting the removal of the vendor from the 1099 database. The GAO-94 form should be accompanied by an explanation of why the incorrect COBJ was used, and what the correct COBJ should have been.

4. If a vendor is not on the report due to an error in recording the COBJ, prepare a GAO-94 form requesting the addition of the vendor to the 1099 database. The GAO-94 form should be accompanied by an explanation of why the incorrect COBJ was used, and what the correct COBJ should have been.

5. Verify that the name is formatted correctly.

- A. Verify that business names DO NOT have “DBA” or “THE” as the first word.
- B. Verify that all sole proprietorships have the owner’s name on the first line. The business name can be on the first address line.
- C. Verify that there is no punctuation or extra space in the vendor’s name.
- D. 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

- E. If a name is not properly formatted you should:
 1. Request a new GAO-W-9 form to be filled out by the vendor. This new GAO-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 the GAO-94 form instructions.

6. 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 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, please prepare a GAO-94 form to change the amount or type (box number).

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

Only corrections for payments to employees 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.

The GAO-94 1099-MISC Correction form is located at the GAO website (www.gao.az.gov) under Publications, AFIS Information, AFIS Forms. The GAO-W-9 form is found on the GAO website under Online Forms.

Please submit all vendor file corrections and GAO-94 forms to the GAO as soon as possible, and no later than **January 11, 2012** to ensure that corrections are input into the database before the 1099-MISC file is sent to American Business Solutions for printing and mailing. The State may be assessed a penalty for each 1099-MISC form that is incorrectly reported. When submitting any correction forms or a copy of the DAFM953U (used for employee corrections) to the GAO, please clearly indicate on the envelope "1099 vendor corrections," so that the corrections can be properly and timely routed.

If you have any questions concerning the forms or other related 1099-MISC issues, please contact Tiffany Franks at (602) 542-6522, 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.