Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

TO: All State Agencies
ATTN: Accounting Supervisors

FROM: D. Clark Partridge, State Comptroller

DATE: December 22, 2016

SUBJECT: 1099-MISC Reporting for Calendar Year 2016

The General Accounting Office (GAO) has prepared the following 1099 Master Reports that show tax reportable vendor payments made by State agencies for Calendar Year 2016. These reports are located in the 1099/AP Confidential Reports folder under each agency's reports folder in InfoAdvantage (InfoAdv).

- FIN-AZ-AP-N176i (N176i) which pertains to AFIS reportable payments issued during Calendar Year 2016
- FIN-AZ-AP-N176e (N176e) which pertains to reportable payments from the interfacing agencies for Calendar Year 2016

FIN-AZ-AP-N176i (N176i) report, which is now available in each agency's 1099/AP Confidential Reports folder in InfoAdv and contains 1099 reportable payments as of December 16, 2016, is a preliminary report in order to provide agencies more time for 1099 correction preparation. A final version of N176i will be available on January 3, 2017.

FIN-AZ-AP-N176e (N176e) report will be anticipated to be available in interfacing agency's 1099/AP Confidential Reports folder in InfoAdv by January 10, 2017.

The deadline for the first round of 1099 corrections before 1099-MISC forms are printed and mailed to the recipients is January 13, 2017. Due to a small window of time for corrections, agencies are encouraged to review all 1099 Master Reports and submit any correction(s) via GAO-94 form to the GAO as soon as possible.

Similar to previous reporting years, the reports available include the legal name and Taxpayer Identification Number (TIN) of the vendor. The TIN is either a Social Security Number (SSN) or Employer Identification Number (EIN). The reports also include 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. **Data from N176e will NOT be combined by TIN to generate a single 1099-MISC for each vendor. Please refer to the 1099-MISC Interfacing Agencies Memo for further instructions of how 1099 reportable data from the interfacing agencies is handled.**

The GAO is responsible for compiling all 1099 information from State agencies and sending the information to Information Outsource who will print and mail the 1099s. The 1099-MISC forms for Calendar Year 2016 will be mailed to the recipients no later than January 31, 2017. 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-MISC information returns with the IRS. It is very important that all State agencies verify their vendor payments included on all 1099 Master Reports (N176i and N176e) 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 1099 Master Reports 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 1099 Master Reports.

A. If a vendor <u>is</u> on the report and <u>should not be</u> because it is a non-reportable entity (government, corporation, etc.), you should prepare a 1099-MISC Correction form (GAO-94) so that the 1099 Reporting Classification can be changed on the vendor's record on the VCUST table in AFIS. If the 1099 indicator on the VCUST table under Vendor/Customer, Organization tab set to "Yes", 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 or through the ProcureAZ interface. This new GAO-W-9 form should be signed by <u>both</u> the vendor and an authorized person listed on the GAO-3DT form. The GAO will then change the 1099 indicator accordingly for the vendor.

B. If a vendor is <u>not</u> on the 1099 Master Report and <u>should be</u> 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 1099I table. If the 1099 indicator on the VCUST table under Vendor/Customer, Organization tab is set to "No", 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 or through the ProcureAZ interface. This new GAO-W-9 form should be signed by <u>both</u> the vendor and an authorized person listed on the GAO-3DT form. The GAO will then change the 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 and other 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 1099 Master Report.

3. If a vendor is on the report due to an error in recording the Expenditure Object (OBJ in New AFIS), 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 OBJ was used, and what the correct OBJ should have been.

4. If a vendor is not on the report due to an error in recording the OBJ, 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 OBJ was used, and what the correct OBJ 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 secondary name field.

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 should be signed by both the vendor and an authorized person listed on the GAO-3DT form.* 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 or through the ProcureAZ interface due to spelling or format errors, 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.

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

Please remember the amounts shown on the 1099 Master Reports are not necessarily the amounts issued to the recipients on the 1099-MISC. If any other agencies issued payments to the same recipient within AFIS, 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.

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

Please submit all vendor file corrections and GAO-94 forms to the GAO as soon as possible, and no later than 4:00 PM on **January 13, 2017** to ensure that corrections are input into the database before the 1099-MISC file is sent to Information Outsource for printing and mailing. The State may be assessed a penalty for each 1099-MISC form that is incorrectly reported. When mailing any correction forms, please clearly indicate on the envelope "1099 vendor corrections," so that the corrections can be properly and timely routed. Correction forms may also be emailed by an authorized person listed on the GAO-3DT form to Vendors@azdoa.gov.

If you have any questions concerning the forms or other related 1099-MISC issues, please contact Patti Ferreira at (602) 542-5402, LaKeisha Lewis at (602) 542-5554 or Michelle Butler at 602-542-0272. We look forward to working with you and your agency in order to make this 1099 season as smooth as possible.

DCP/bn/pf