



GAO Technical Bulletin

Arizona Department of Administration ♦ General Accounting Office

Subject:	<i>Payments for Services and Form 1099-MISC Reporting</i>	Issued:	10/25/13
Manual Section(s):	N/A	Effective:	10/25/13
Supersede(s):	Enumerated sections of Technical Bulletin No. 08-1	Page:	1 of 5

TO: Technical Bulletin Administrators
All Agencies

FROM: D. Clark Partridge
State Comptroller

AUTHORITY

A.R.S. § 41-703 Duties of director
A.R.S. § 41-722 Powers and duties relating to finance

DEFINITIONS

AFIS: The Arizona Financial Information System; Arizona State Government's principal automated accounting system.

AFIS Section: A unit of the GAO responsible for overseeing statewide operations involving the State's principal automated accounting system.

Agency: Any department, authority, board, commission, council, administration, court, registrar, office, institution, or other entity in the Executive, Legislative, or Judicial branch of Arizona State Government. In contexts that are directive in nature, the use of the term "agency" may imply that an employee, the employee or those employees within the organization—such as the agency head, the CFO, etc.—responsible for carrying out the procedures under consideration.

Authorized payroll system: Any method of recording and reporting upon employee compensation, withheld taxes, other deductions, etc. approved for use by any agency. HRIS is the State's principal, but not only, authorized payroll system.

Backup withholding: Under the provisions of Internal Revenue Code, Section 3406(b), payers making certain payments to payees must withhold and pay to the IRS a specified percentage of tax computed for those payments if the payee fails to furnish his, her or its TIN to the payer.

Box: One of many fields on the Form 1099-MISC representing different types of payments being reported.

COBJ: Comptroller object; in governmental accounting, a code used to classify revenues and expenditures.

Contractor: An organization or a person, other than an employee, that provides services to the State in exchange for payment.

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Employee: Any full- or part-time individual being paid under the authority of any payroll system of the Government of the State of Arizona or any public officer, deputy, board or commission member.

Form 1099-K: An IRS form used by issuers of payment and credit cards to report payments to its payees.

Form 1099-MISC: An IRS form used to report upon miscellaneous income and certain types of compensatory payments other than wages, salaries, and tips.

Form 1099-R: An IRS form used to report distributions from pensions and similar payments.

Form W-2: An IRS form used to report an employee's compensation, taxes, certain reimbursements, etc.

Form W-9: An IRS form used to collect the TIN of those to whom payments are made.

Gross proceeds paid to an attorney: Payments made to an attorney acting on behalf of or collecting for another individual or organization, as in the case of a settlement agreement or garnishment.

HRIS: Human Resources Information Solution, the State's primary automated personnel and payroll system administered by the Arizona Department of Administration.

IRS: Internal Revenue Service; the division within the U.S. Department of the Treasury responsible for the administration and collection of Federal income taxes and the collection of Social Security and Medicare taxes on behalf of, respectively, the Social Security Administration and the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.

P-Card: A card provided through State contract to State employees, State organizations, or State departments for the purpose of conducting purchase or payment activities for a valid public purpose.

State Comptroller: A chief financial officer of the State of Arizona and principal executive of the GAO.

TC: Transaction Code. A code required for recording financial transactions in AFIS.

TIN: Taxpayer Identification Number; a number used by the IRS and other governmental bodies in the administration of tax laws.

INTRODUCTION

The purpose of this technical bulletin is multifold:

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1. To establish a policy permitting the use of the P-Card to purchase and pay for services.
2. To remind agencies of the State's obligation to issue Forms 1099-MISC to service providers.
3. To clarify the use of Form 1099-MISC box numbers in AFIS.
4. To outline Form 1099-MISC reporting requirements for agencies that file independently.
5. To identify many of those types of services for which payment does not require the issuance of a Form 1099-MISC.
6. To emphasize the requirement to distinguish between and appropriately categorize employees and independent contractors.

When payments are made through AFIS, the payee's entity type, the COBJs employed and the amounts of payments during the calendar year are used to determine whether a Form 1099-MISC will be issued. The COBJ is also used to determine the box or boxes in which payments will be reported.

When payments are not made through AFIS, other methods will be required to determine appropriate reporting procedures and, for payments to be reported using forms other than Form 1099-MISC, which form and box number(s) of that form are to be used.

This policy does not extend to other forms of the 1099 series, such as the Forms 1099-R, 1099-K, 1099-INT, etc.

POLICY

1. Paragraphs I.6.a. through I.6.e. of Technical Bulletin No. 08-1, *Statewide Purchasing Card (P-Card) Policies and Procedures*, are rescinded. The P-Card may now be used to purchase and pay for services that would otherwise require the issuance of a Form 1099-MISC.
2. All agencies, whether they use AFIS to process contractor payments or not, are required to issue Forms 1099-MISC, when appropriate.
 - a. This is accomplished by most agencies automatically when disbursements are made through AFIS when:
 - i. The appropriate COBJ is used to record the expenditure,
 - ii. The payee is of the type to receive a Form 1099-MISC, and
 - iii. The amount paid to the payee during a calendar year merits the filing of a Form 1099-MISC.

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- b. For those cases in which a sales agent's commission is withheld (for example, in the case of lottery tickets and certain licenses), a monthly journal entry, using a companion transfer, for the aggregate of the commissions withheld should be made, the debit of which is the appropriate expenditure COBJ (which is COBJ 7421, *Aggregate Withheld or Paid Commissions*, unless a more program or agency specific COBJ exists) and the credit of which is the appropriate revenue COBJ. The revenue side of the companion transfer should use TC 323 and the expenditure side TC 324 (for commissions not needing to be encumbered) or TC 325 (for commissions that must be encumbered).
- c. Except in cases in which agencies have reported Form 1099-MISC data to the IRS independent of statewide data for calendar year 2012 or before, agency Form 1099-MISC data that are kept in a different accounting system or that use other offline should be merged with AFIS data for consolidated statewide reporting. Agencies should contact the AFIS Section for assistance or formatting guidelines.
- d. Aggregate posting to AFIS of fees paid or commissions withheld does not produce Forms 1099-MISC for payees. In these cases the agency is to follow one of two methods of assuring that Forms 1099-MISC are produced:
 - i. Historically, some agencies have been granted the authority by the State Comptroller to secure their own TINs and to use them when independently filing certain forms and reports. These agencies may continue to do so.
 - ii. Agencies that do not have the authority to issue forms or reports using their own TIN must consolidate and coordinate the filing of their Forms 1099-MISC with those filed by the State. If assistance is required, an agency should contact its GAO liaison.
3. Certain COBJs in AFIS contain an '8' in their 1099 fields. These COBJs post data to Box 14, and not Box 8, of the Forms 1099-MISC.
4. The IRS does not require the filing of Forms 1099-MISC for payments of less than \$600 per year or for payments made to corporations, but it does not prohibit it. As a consequence, if an agency files its Forms 1099-MISC independently from the State's consolidated reporting, it may, but is not required to, file Forms 1099-MISC for amounts less than \$600 or for payments to corporations.
5. Payments related to certain kinds of services do not require the issuance of Forms 1099-MISC; these include payments to:
 - a. A single payee that, in total, amount to less than six hundred dollars (\$600) per year.
 - b. A corporation, except when such payments are for:
 - i. Attorney's fees (Box 7).
 - ii. Gross proceeds paid to an attorney (Box 14).

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- iii. Medical and health care payments (Box 6).
 - c. An issuer of payment or credit cards (the issuer is required to appropriately report payments to its payees using Form 1099-K).
 - d. A tax-exempt organization, including any unit of any government.
 - e. A fee, award or reward paid to an informant by a unit of government for information about criminal activity.
- 6. Do not use Form 1099-MISC to report the reimbursement of employee business expenses, which should be recorded in HRIS or the agency’s appropriate, authorized payroll system and, if applicable, included on an employee’s Form W-2.
 - 7. Vendors, contractors, or sales agents receiving or withholding commissions or other forms of payments from the State are required to complete a Form W-9 and are subject to backup withholding should they fail to do so.
 - 8. It is important that, with respect to those individuals providing services to the State, a distinction is made between independent contractors and employees and that each are treated appropriately. Agencies are directed to Technical Bulletin Number 99-06, *Employee vs. Independent Contractor*, for guidance in this matter. Failure to appropriately identify and treat certain service providers as employees poses a significant monetary risk for an agency.

ON-LINE AVAILABILITY

Copies of all Technical Bulletins and many GAO Forms are available for viewing and downloading from the General Accounting Office Website located at:

<http://www.gao.az.gov>

AREAS IMPACTED

All State agencies.

QUESTIONS, COMMENTS, CONCERNS, RECOMMENDATIONS AND FEEDBACK

If you have any questions concerning this Technical Bulletin, please contact your GAO Liaison.

We welcome your comments, concerns, recommendations and feedback. You are invited to send your suggestions to us at:

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