



State of Arizona Accounting Manual

Topic 45 Expenditures, Expenses and Disbursements
Section 40 **Payments for Services and
Forms 1099-MISC and 1099-NEC Reporting**

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INTRODUCTION

The purpose of this section of SAAM is multifold:

- To establish a policy permitting the use of the P-Card to purchase and pay for services.
- To remind agencies of the State's obligation to issue Forms 1099-MISC and 1099-NEC to service providers.
- To clarify the use of Forms 1099-MISC and 1099-NEC box numbers in AFIS.
- To outline Forms 1099-MISC and 1099-NEC reporting requirements for agencies that file independently.
- To identify many of those types of services for which payment does not require the issuance of a Form 1099-MISC or 1099-NEC.
- 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 Object Codes employed and the amounts of payments during the calendar year are used to determine whether a Form 1099-MISC or 1099-NEC will be issued. The Object Code 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 Forms 1099-MISC and 1099-NEC, which form and box number(s) of that form are to be used.

References below made to Box or Box Number refer to one of the many fields on Federal Forms 1099-MISC and 1099-NEC, each of which represents different types of payments being reported.

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POLICY

1. The P-Card may be used to purchase and pay for services. The issuer of the P-Card in such circumstances is responsible for reporting payments to the vendor using Form 1099-K; the State has no reporting requirements separate or additional to those of the P-Card issuer.
2. All agencies, no matter the system or systems they use to process contractor payments, are required to issue Forms 1099-MISC and 1099-NEC, when applicable.
 - 2.1. This is automatically accomplished by most agencies making payments to vendors using APP and AFIS when:
 - 2.1.1. The appropriate Object Code is used to record the expenditure. Each Object Code contains information as to whether a Form 1099-MISC or 1099-NEC should be prepared and in which box on the Form 1099-MISC or 1099-NEC payments should be reflected.
 - 2.1.2. The payee is of the type to receive a Form 1099-MISC or 1099-NEC. The type of payee is determined by:
 - 2.1.2.1. Its legal organization form.
 - 2.1.2.2. The nature of the services provided.
 - 2.1.3. The amount paid to the payee on a statewide basis during a calendar year requires the filing of a Form 1099-MISC or 1099-NEC.
 - 2.2. 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 journal voucher (JV) or internal exchange transaction (IET), for the aggregate of the commissions withheld should be made, the debit of which is the appropriate expenditure object (which is object 7421, Aggregate Withheld or Paid Commissions, unless a more program or agency specific object exists) and the credit of which is the appropriate revenue source.
 - 2.3. Aggregate posting to AFIS of fees paid or commissions withheld does not produce Forms 1099-MISC or 1099-NEC for payees. In these cases the agency is to follow one of two methods of assuring that Forms 1099-MISC and 1099-NEC are produced:
 - 2.3.1. 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.
 - 2.3.2. 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 and

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1099-NEC with those filed by the State. If assistance is required, an agency should contact its GAO liaison.

3. The IRS does not require the filing of Forms 1099-MISC or 1099-NEC for payments of less than six hundred dollars (\$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 and 1099-NEC independently from the State's consolidated reporting, it may, but is not required to, file Forms 1099-MISC and 1099-NEC for amounts less than six hundred dollars (\$600) or for payments to corporations.
4. Payments related to certain kinds of services do not require the issuance of Forms 1099-MISC and 1099-NEC; these include payments to:
 - 4.1. A single payee that, in total, on a statewide basis, amount to less than six hundred dollars (\$600) per calendar year.
 - 4.1.1. Since the State is a single reporting entity for Forms 1099-MISC and 1099-NEC purposes, agencies that file independently cannot readily ascertain how much may be paid on a statewide basis to a recipient during a calendar year.
 - 4.1.2. Because an agency that files individually cannot determine the amount of statewide payments to a recipient during a calendar year, those agencies that have been granted the authority to independently file Forms 1099-MISC and 1099-NEC must provide an electronic file of their Forms 1099-MISC and 1099-NEC filing to the GAO each year. This file shall be in the format prescribed by the GAO and shall be forwarded to the GAO so as to be received not later than January 31 of the year following that in which the payments were made.
 - 4.2. A corporation, except when such payments are for:
 - 4.2.1. Gross proceeds paid to an attorney (Box 10 of Form 1099-MISC).
 - 4.2.2. Medical and health care payments (Box 6 of Form 1099-MISC).
 - 4.3. An issuer of payment or credit cards (the issuer is required to appropriately report payments to its payees using Form 1099-K).
 - 4.4. A tax-exempt organization, including any unit of any government.
 - 4.5. A fee, award or reward paid to an informant by a unit of government for information about criminal activity.
5. Do not use Form 1099-MISC or 1099-NEC 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.

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6. 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.

7. 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 the appropriate section of SAAM for guidance in this matter. Failure to appropriately identify and treat certain service providers as employees poses a significant monetary risk for an agency.