

1099-MISC Reporting for Non-Employees

Background:

Acumen Fiscal Agent receives reimbursement of all pass through, which includes employee wages and payments made to non-employees and other third parties processed on behalf of the programs for which have contracted fiscal agent services. It is Acumen Fiscal Agent's stance that it is prudent and our fiduciary responsibility to report **all** payments, regardless of amount, made with these funds. The W-2 is used to report employee compensation and the 1099-MISC is used to report all non-employee payments. IRS Form W-9 is necessary to gather the basic demographic information required to complete the reporting of all third party and non-employee payments on the 1099-MISC.

Policy:

In order to consistently deal with the varying level of scenarios surrounding vendor and third party payment requests, Acumen Fiscal Agent requires the submission of a W-9 for all non-employee payments. This includes standard and non-standard vendor payments, direct employer, and other third-party reimbursements. We will not process any payments to vendors and non-employees unless a complete W-9 is on file. In addition, all payments made throughout the calendar year regardless of amount will be reported on a Form 1099-MISC.

Acumen Fiscal Agent will report all transactions, as appropriate, to all federal/state/local agencies in the required format and frequency.

Common Payment Types Reportable on 1099-M:

<http://www.irs.gov/businesses/article/0,,id=243429,00.html>

- Bonuses, nonemployee
- Car expense, nonemployee
- Compensation, nonemployee
- Fees, nonemployee
- Medical services
- Mileage, nonemployee
- Rental Expense

Procedure:

Client's Responsibilities:

1. Ensures vendor/third-party recipient completes an IRS Form W-9 prior to any payment being made.
2. Verifies reimbursement is allowed under their applicable waiver/program.
3. Makes sure the mileage reimbursement rate is correctly identified per the purpose of the trip
 - Business Standard Mileage – general business purposes
 - Medical Standard Mileage – travel to and from medical appointments and services
 - Charitable Standard Mileage – gratuitous transportation services provided by a volunteer or in connection with a charitable organization
4. Submits approved requests for reimbursement to Acumen Fiscal Agent.

Vendor/Third-Party Responsibilities:

1. Completes IRS Form W-9 accurately, to include his/her Taxpayer Identification Number (TIN).
2. Ensures all expenses, such as reimbursement for goods, rent, mileage etc., have adequate documentation to account for the expense.
3. Submits receipts/invoices for approval to client for whom the expense was incurred.

AFA will:

1. Verify Form W-9 has been completed correctly.
2. Prior to setting up new vendors, validate the TIN or SSN provided through the IRS Taxpayer Identification Number (TIN) Matching Program as established in Revenue Procedure 2003-9.
 - Any Payee that submits a W-9 that does not match through this program will remain on pending status and no payments issued, until AFA receives a W-9 with accurate information.
 - The general program guidelines for the TIN Matching Program can be found at:
<http://www.irs.gov/pub/irs-pdf/p2108a.pdf>
3. Set up vendor/third party in database.
4. Process payments per client's approved request on an agreed upon schedule.
5. Process, file, and distribute IRS Forms 1099-MISC for all payments, regardless of amount, to vendors/third parties.
6. Maintain documentation of all required paperwork in the client/vendor files.

Notes:

1. This process is to substantiate all payments made by Acumen Fiscal Agent with waiver funds.
2. Payment recipients will need to decide how/if they should report the payment on their individual tax returns.
3. In accordance with program directives, all payments made to individuals identified by the program as Clients, Employers and/or Authorized Representatives, are considered reimbursements and thus reported in Box 3 of Form 1099-MISC. Payments made to all other entities will be reported in Box 7 of Form 1099-MISC.
4. There will be no deviation or exceptions to #3 above. Acumen Fiscal Agent has no direct knowledge of the goods or service provided and relies on the information provided by the program, vendor, or third party in the issuance of payments and fulfillment of reporting requirements. It is the recipient's responsibility to report the payments to the IRS as appropriate.

Critical Factors/Points to Consider:

1. Accountability starts with the client, must understand additional responsibilities on the front end.
2. AFA to provide a general FAQ document to program personnel and payment recipients so they have front-end understanding of how AFA handles all third party and non-employee payments.
3. The policy requirement to report all third party and non-employee payments, regardless of amount, on Form 1099-MISC will increase AFA's expenses at year-end. There is a charge per form generated.



Acumen Fiscal Agent

Form 1099-MISC Frequently Asked Questions*

**The information on this document is provided for reference only. It is not intended to be construed as tax advice. Any questions regarding your individual tax situation should be directed to a tax advisor*

1. What is Form W-9? **

Form W-9 (or an acceptable substitute) is used by persons required to file **information returns** with the IRS to get the payee's (or other person's) correct name and TIN. For individuals, the TIN is generally a social security number (SSN).

2. What is an information return? **

An information return is a tax document businesses are required to file to report certain business transactions to the Internal Revenue Service (IRS). The requirement to file Information Returns is mandated by the Internal Revenue Code and associated regulations.

3. Who must file Information Returns? **

Any person, including a corporation, partnership, individual, estate, and trust, who make reportable transactions during the calendar year, must file information returns to report those transactions to the IRS. Persons required to file Information Returns to the IRS must also furnish statements to the recipients of the income.

4. What is Form 1099-MISC? **

It is an information return used generally to report payments made in the course of a trade or business to a person who is not an employee or to an unincorporated business.

5. What are some examples of payment types required to be reported on a 1099-MISC? **

- Auto reimbursements, nonemployee
- Car expense, nonemployee
- Compensation, nonemployee
- Health care services
- Mileage, nonemployee
- Rental Expense
- Transportation Reimbursement

6. I received a Form 1099-MISC instead of a Form W-2. I am not self-employed; I do not have a business.

How do I report this income? **

If payment for services you provided is listed in box 7 of Form 1099-MISC, you are being treated as a self-employed worker, also referred to as an independent contractor:

- You do not necessarily have to "have a business," but simply perform services as a non-employee to have your compensation treated this way.
- The payer has determined that an employer-employee relationship does not exist in your case.
- That determination is complex, but is essentially made by examining the right to control how, when, and where you perform those services.
- It is not based on how you are paid, how often you are paid, nor whether you work part-time or full-time.

7. Should I keep records? **

Yes, good records will help you keep track of deductible expenses. You may forget expenses when you prepare your tax return unless you record them when they occur. If you keep timely and accurate records, you will have support to show the IRS if your tax return is ever examined. The following IRS website provides more information regarding the need for adequate recordkeeping. (<http://www.irs.gov/publications/p463/ch05.html>)

****Information taken from the Internal Revenue Service website: www.irs.gov**