



STATE OF ARKANSAS
**Department of Finance
and Administration**

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MEMORANDUM

To: Chief Fiscal Officers, State Agencies, Boards and Commissions
Attn: **Purchasing Agents and Accounts Payable Staff**

From: Joe Giddis, Director
State Procurement

Date: January 7, 2008

Subject: W-9 Processing

This memorandum establishes policy for the processing of W-9s, Request for Taxpayer Identification Number and Certification to ensure the State meets the requirements of the Internal Revenue Service for the processing and distribution of 1099-Miscellaneous Forms as covered in IRS Publication 1220 .

<http://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

W-9s are required of all domestic vendors, regardless of tax status, to establish the Federal Identification Number in the state's vendor master database. That includes "B" or Benefit Vendors (Lawyers receiving third party payments are 1099 reportable), Board and Commission Members, Agency Vendors, Accounts Payable Vendors, Employees doing business as an Accounts Payable Vendor and "One-Time" Vendors. The "one time" vendor functionality should be used only as a last resort. Agencies will be responsible for any penalties that may arise from improper use of the "one time vendor" function or registering vendors.

The Internal Revenue Service remedy for vendors refusing to provide a W-9 upon request is backup withholding of 30% of the payment. Agencies should contact John Lewis, DFA-Office of Accounting at john.lewis@dfa.arkansas.gov for assistance with the transactions and reporting requirements to effect this requirement.

W-9s are not required for Foreign Vendors. Office of State Procurement will assign a vendor number.

Agencies must provide the predominant type of service provided by each vendor to be used as the default tax code. This taxable amount of the payment should be changed on the invoice when part of the payment is non reportable such as Board Member Expense when both Per Diem and Reimbursable Expenses are on the same invoice. The tax code should be changed on the invoice when the default tax code is not appropriate for the payment being made (Vendor provides Medical Services and also serves as a Medical Board Member).

A new or replacement W-9 must be received by OSP prior to any change in a vendor's tax code. Vendors will be subject to 30% of the payment, as backup withholding, if a W-9 is not received. Non-Reportable Categories

00 – Non Reportable - This category includes Non Profits, Corporations (other than those providing Medical Services), Governmental and Quasi-Governmental Entities (State and Local Governments, School Districts, Colleges and Universities).

Amounts reportable on 1099s are for Services. Goods are only reported when they are part of the invoice for services (repair and maintenance). If the vendor sells only goods to the State, it should be

coded as 00 – Non Reportable. Example: Pharmacies are sometimes coded as medical service providers. They should be considered as non-reportable for 1099 purposes. The State is buying the drugs not the pharmacist's ability to put them in bottles.

By law, foster care vendor payments are exempt from being reported and the vendor must be specifically identified on the W-9 as a foster care vendor.

Agencies will use reportable tax code category "07" as the default when personnel are not sure of the tax code category.

Reportable Categories:

- 01 Rent – This is particularly important to the vendor as this type of payment is not Social Security taxable.
- 03 Other Income – Normally used for prizes, awards, and lawsuit settlements.
- 06 Medical and Health Care Payments – This is reportable for all vendors except Non-Profit Corporations. Sales of prescription drugs by pharmacies are not reportable.
- 07 Non-employee Compensation – This is a broad category for almost all other services.
- 14 Gross Attorneys Fees – This applies only to Benefit Vendors for court settlements and garnishments where the attorney receives payment on behalf of the client.

Do not use the following categories in tax code XK01:

- 02 Royalties
- 04 Federal Income Tax withholding
- 05 Fishing Boat proceeds
- 08 Sub-payments (dividends/interest)
- 09 Payer made direct sales of \$5K or more
- 10 Crop insurance proceeds
- 11 State income tax with-holding

If you have questions on 1099 processing please email john.lewis@dfa.arkansas.gov.

If you have questions on W-9 processing please email OSP at shelia.kinslow@dfa.arkansas.gov.