

## **User Agency Review of AASIS Vendor Report**

The purpose of the AASIS Vendor Report is to provide all of the Vendor Payments processed for your review and correction, if necessary.

### **Known Situations**

1. Agencies chose tax code P1 instead of P0 on an invoice that did not include sales tax. This causes the posting program to calculate an inappropriate withholding tax and reduces the taxable amount of the payment to the vendor and thus under reports the 1099. Please review your use of P1 and correct the payments on line.
2. One-time vendors were used for taxable payments. These payments should be reviewed and updated in AASIS to reflect the correct tax code. One-time vendor payments will be included in the 1099 extract effective immediately.
3. Board member stipend payments should have been paid as wages and reported on a W-2. Any other payments to Board members should be reviewed to determine if a 1099 is necessary for the payments made. If you believe that you have 1099 reportable payments made to board members, please contact DFA-OA at 682-1675 and speak to John Lewis or Melanie Hazeslip.
4. Payments were allowed to use the default code of the vendor when the payment was non-taxable or should have used a different tax code. The main issue is Non-Employee Compensation (07) and Rent (01). A significant number of complaints resulted because of the FICA taxability that exists for Non-Employee Compensation but not for Rent.
5. Payments were not split properly between taxable and non-taxable amounts. Although the IRS allows us to report the gross amount, we should separate and properly classify the payment when the taxable amount is known.
6. The exception to the rule that Corporations do not receive 1099's is Medical Payments. Typically, the Corporation is set up to be non-taxable and therefore, the taxable amount for the default will be zero. Please review your Corporate Entities for Medical Payments. These payments should be updated in AASIS and will be included in the 1099 extract effective immediately.
7. The Claims Commission uses One-Time Vendors to pay claims that are 1099 reportable from appropriations and funds assigned to the agency. It is the responsibility of the agency to review these payments and update

those payments in AASIS to reflect the correct tax code.

### **Non-Taxable Vendors with Taxable Payments**

The report will show non-taxable vendors (00) with taxable payment amounts. This is the result of the vendor master data correction procedure. The Department of Finance and Administration – Office of Accounting (DFA-OA) and Office of State Procurement (DFA-OSP) receive notification from various vendors stating that they are not taxable. Due to the number of payments it is impractical for DFA-OA or DFA-OSP to change the individual taxable payment amounts to zero. Examples are corporate entities, foster care providers, foster grandparent providers, employees converted as vendors for travel, non profit entities, governmental entities, quasi governmental entities, board members that received only reimbursable expenses, errors in charging rent to the individual and not the corporation and several other special IRS classifications that excluded the vendor from the 1099. It is the responsibility of the agency to verify that all payments are coded correctly.

Please review the non-taxable vendor payments for your agency. If you feel that the vendor's tax classification is incorrect as shown on the report, please Email the AASIS Vendor Information and a statement as to why the classification should be changed to: [John.Lewis@DFA.arkansas.gov](mailto:John.Lewis@DFA.arkansas.gov).

### **Tax Determination**

The Internal Revenue Service has the regulations concerning 1099's on their website: <http://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

Please consult this website if you have questions as to whether or not a vendor/vendor payment is taxable and should be reported as a 1099.

If your agency has an attorney or tax specialist, he or she should be consulted when there are questions.