



Paul Angulo
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"One team – All the time"



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Legislative Updates

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Hot Topic Items

- Legislative Update to IRS Section 6041
(1099 Reporting)
 - Form W-9
- 3% Federal Withholding



The Tax Gap



- Under reported taxes
 - The difference between what taxpayers should have paid and what they actually paid on a timely basis
 - Over \$353 billion each year
 - Enforcement activities recover about \$55 billion
- IRS Goals
 - Improve taxpayers understanding of their obligations
 - Simplify the complexity of the tax code
 - Increase compliance in third party reporting

Legislative Update to IRS Section 6041 1099 Reporting

- Two Key Changes Effective January 1, 2012
 - Reporting to Corporations Required
 - Reporting of all payments of \$600 or more
 - Merchandise, Equipment, Inventory & Raw Materials

REPEALED

President's 2012 Budget Proposal

- Eliminates the corporate exception from Form 1099-M Reporting
 - Scored to raise \$10.1 billion over ten years
- Requires:
 - Collection of TINS (Form W-9), AND
 - Payor (County) must confirm Name/TIN matcher per IRS records
- Allows a payee to “elect” to voluntarily have specified amounts (15%, 25%, 30% or 35%) withheld from their gross payments



Best Practices for Forms W-9

- Collect a Form W-9 from all US payees
- Use the IRS Tin matching system
- Ensure payees are using the latest version of the Form W-9 (January 2011)

<http://www.irs.gov/pub/irs-pdf/fw9.pdf>

- Make sure the name on Line 1 of the Form W-9 is consistent with the entity classification



IRS Form W-9

Form W-9
Request for Taxpayer Identification Number and Certification

Give Form to the requester. Do not send to the IRS.

Name (as shown on your income tax return)
 Business name (unincorporated entity name, if different from above)
 Check appropriate box for federal tax classification (check all that apply):
 Individual (sole proprietor or single-member LLC)
 Partnership
 Corporation
 Trust/estate
 Limited liability company (Enter the tax classification on line 10b)
 Other (see instructions)
 Address (number, street, and apt. or suite no.)
 City, state, and ZIP code
 Tax account number(s) (see instructions)

Part I Taxpayer Identification Number (TIN)
 Enter your TIN. The requester will use this information to match the name shown on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a trust, estate, sole proprietor, or disregarded entity, use the TIN instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see How to get a TIN on page 3.
 Social security number
 Employer identification number

Part II Certification
 Under penalty of perjury, I certify that:
 1. The number shown on this form is the correct taxpayer identification number (or I am waiting for a number to be issued to me), and
 2. I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
 3. I am a U.S. citizen or other U.S. person (defined below).
Confirmation instructions. You must check out item 3 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For individuals, see instructions, item 3. For other entities, see instructions for determination of correct property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and general instructions other than interest and dividends; you are not required to sign this certification, but you must provide your correct TIN. See the instructions on page 3.
Sign Here Signature of U.S. person Date

General Instructions
 Section references are to the Internal Revenue Code unless otherwise noted.
Purpose of Form
 A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report to the IRS. Income paid to you under backup withholding, mortgage interest, and other payments is subject to backup withholding if you do not provide your TIN to the person requesting it (the requester) and, where applicable, to
 1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued).
 2. Certify that you are not subject to backup withholding, or
 3. Check appropriate box for federal tax classification if you are a U.S. person.
Backup withholding. Backup withholding is required if you are a U.S. person who does not provide your TIN to the requester. If you are a U.S. person that is a partner in a partnership (including a trust) or a trustee of a trust, a sole proprietor, partner, or trustee of a trust, or a beneficial owner of a trust, you must also avoid withholding on your share of partnership income, trust income, or other income.
Note. If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to the Form W-9.
Definition of U.S. person. For federal tax purposes, you are considered a U.S. person if you are:
 • An individual who is a U.S. citizen or U.S. resident alien.
 • A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States.
 • An estate (other than a foreign estate), or
 • A decedent (that is, defined in Regulations section 301.7701-7).
Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay withholding. Further, in certain cases where a Form W-9 is not required, a partnership is required to ensure that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership (including a trust) or a trustee of a trust, you must provide your TIN to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

OMB No. 1545-0047 Form W-9 (Rev. 1-2011)

Form W-9 Due Diligence



- Always review Form W-9 for validity
 - Name, Federal Tax Classification, EIN or SSN, Signed and Dated
- Name on Line 1 must match the tax classification and ID number type (Individual provide SSN)
- Ensure payees are using the latest version of the Form W-9 (January 2011)
- Request a new W-9 if invalid
- New 2011 Form W-9 instructions have a specific requirement the Federal Tax Classification box is completed (Individual, C Corp, S Corp, Partnership, etc.)



B-Notices



- **There are penalties... \$100*** for **EACH** of the following infractions related to information returns:
 - Filed with a missing/incorrect TIN,
 - Filed untimely,
 - Filed on incorrect media,
 - Filed in an incorrect format, or
 - Any combination of the above

*** Penalties increased in 2011**



3% Federal Mandatory Withholding

- Withhold 3% tax on certain vendor payments made by government entities after **December 31, 2012**
- ARRA of 2009 delayed implementation from 12/31/2010 to 12/31/2011
- Final Regulations delayed implementation from 12/31/2011 to 12/31/2012
- Remit these taxes to the IRS using current tax deposit rules
- Report the withholding to the vendors/IRS on form 1099-MISC



Affected Government Entities



- All U.S. Government agencies
- All state governments (including DC, but excluding Indian tribal governments)
- All subdivisions or instrumentalities of state government that make annual payments for property and services (excluding wages) of \$100 million or more



Affected Vendors Subject to Withholding



Payment Threshold

- All governmental entities are not required to withhold on payments of less than \$10,000
- \$10,000 threshold is applied separately to each payment and each payee
- 3% withholding applies to total amount paid in any form
- Payor and payee may agree to have withholding apply to payments that are not subject to withholding (including those payments under \$10,000)

Exceptions to Withholding

- These payments will not be subject:
 - Payments for interest
 - Payments for real property
 - Payments for contracts in place and not materially modified (renewals are not considered materially modified)
 - Payments to tax-exempt entities and foreign governments
 - Payments to intra-governmental entities



Exceptions to Withholding – Cont.

- These payments will not be subject:
 - Payments to nonresident aliens and foreign corporations
 - Payments for retirement benefits, unemployment compensation, or social security
 - Payments for public assistance based on need or income (but programs based on age are included)
 - Payments for grant transfers to recipients



Exceptions to Withholding – Cont.

- These payments will not be subject :
 - Payments to government employees in connection with service such as retirement plan contributions, fringe benefits, expense reimbursement
 - Payments made in emergency or disaster situations



Subcontractors

- The party contracting with the government is subject to the 3% withholding
- Subcontractors of the contracting party are not subject to the 3% withholding
- Agents acting as payment administrators for the government are required to withhold



Federal Reporting Requirements

- 1099-MISC required to report payments and withholding
- Reporting includes Corporations
- Currently – 12,000 1099-MISC forms issued by ACO on behalf of County of Riverside
- Estimate – 36,000 1099-MISC forms will be issued by ACO on behalf of County of Riverside
- Withholding will continue to be reported in box 4 on the Form 1099



9311 VOID CONNECTED		OMB No. 1545-0047
PAYEE'S name (street address, city, state, ZIP code, and telephone no.) 2 Builders 123 Maple Avenue Oakton, VA 22050 703-433-4567		3 Period 4 Miscellaneous Income 5 From 1099-MISC 6 Total amount for all forms
PAYEE'S Federal identification number 12-34567890	RECEIPT'S identification number 123-00-0750	7 Flating final proceeds 8 Total of all such tax periods 9
PAYOR'S name (Print or Type) ABC Company	7 Nonemployee compensation 8 Statutory payments in lieu of salaries or honoraria 9 1000.00	10 Other income 11 Total of all such tax periods 12
Street address (including apt. no.) 150 Flower Lane 1500 Oak and Elm Oakton, VA 22050	13 Page made final sale of 14 Other insurance proceeds 15	16 Other payments paid to 17 or attorney 18
Account number (see instructions) and TIN (if any)	19 Other gross payments 20	21 State tax withheld 22 State income tax 23
Use Section 501(c)(3) otherwise 24	25 Section 508 income 26	27 State income tax 28
Form 1099-MISC		Department of the Treasury - Internal Revenue Service

QUESTIONS?