

Enterprise Payment Services (EPS) update for FMAC 1/27/11

1. IRS Rules for 3% Withholding

- a. Where can I find the federal law and draft regulations?
Federal Register / Vol. 73, No. 235 / Friday, December 5, 2008 / Proposed Rules.
http://www.irs.gov/pub/irs-tege/2008_0104_0001_1.pdf
- b. Who does the law apply to?
The law is applicable to all state and large local governments.
- c. When does this law take effect?
Under draft regulations, governments must begin withholding under this law on January 1, 2012.
- d. Will vendors paid by WA State agencies be affected by the 3% withholding requirement?
Yes, in general, vendors that receive a payment of \$10,000 or more for property or services from a WA State agency will be subject to 3% withholding.
Under the draft regulations, certain types of vendors are exempt from the 3% withholding, including:
 - governmental entities
 - tax-exempt organizations
 - foreign governments
 - federal corporations
 - Indian tribal governments
- e. What types of payments will be affected by the 3% withholding requirement?
Under the draft regulations, except as noted below, any payment for property or services of \$10,000 or more will be subject to 3% withholding.
Certain types of payments are exempt from 3% withholding requirements, including:
 - interest
 - payments for the purchase of real property and lease payments (however, payments for construction of real property are subject to withholding, such as constructing a building, road, etc)
 - payments in connection with a public welfare or public assistance plan (these payments must be based on a needs or income test)
 - payments made in an emergency or disaster situation if the emergency or disaster is declared by the Secretary of the US Treasury
- f. How will the payment be sent to the vendor and the IRS?
Under the proposed EPS solution, the net payment of 97% and the remittance advice detail will be sent to the vendor. The 3% federal income tax withheld will be sent to the IRS.

g. **What reporting is required?**

At calendar year-end the system will calculate the total paid to the vendor and the total federal income tax withheld. An IRS form 1099-MISC must be prepared and sent to the IRS and the vendor. An IRS form 945 "Annual Return of Withheld Federal Income Tax" must be prepared and sent to the IRS.

2. AFRS interface change

For agencies that interface with AFRS via a batch interface, the AFRS 950 layout record will change to accommodate the additional withholding fields, which will require agencies to modify interfaces.

3. Statewide vendor file/Agency vendor file conversion

As detailed in the Winter 2011 Connection article <http://www.ofm.wa.gov/reports/connect/connect.pdf>, OFM has been assisting agencies in transitioning from agency vendor files to the Statewide Vendor (SWV) file. Using a Statewide Vendor number (which has a validated taxpayer identification number (TIN)) is a best practice and will be key in EPS.

4. Subobject coding for AFRS payments

A proposed solution is that all payments processed through AFRS, except for a few things like revenue refunds, will require a subobject code. Based on payee type and subobject the system will determine if the payment is subject to 3% withholding or not. Refer to 1.d above – payments for property and services.

5. Exception payments

Certain payments will not require a SWV #. An example is a revenue refund. Work is in progress in this area.

6. Transparency

Stakeholders are demanding transparency in government. LEAP is creating a website that will display WA State's "checkbook." Privacy issues must be addressed.

7. Agency Input

An Agency Advisory Group has been established for agency input on EPS. Additionally OFM is looking forward to meeting with any agency to discuss the proposed EPS solution.

8. Questions?

Contact Jayda Williams, OFM Statewide Accounting, 725-0189, Jayda.williams@ofm.wa.gov.

FMAC Meeting

January 27, 2011

A new day has arrived!

- IRS/EPS status is summarized in the Winter 2011 edition of *The Connection*:
<http://ofm.wa.gov/reports/connect/connect.pdf>
- **All of this is really important!**
 - Be familiar with IRS regulations
 - Agencies are responsible for compliance

New IRS Regulations

Effective January 1, 2011: Payment Card Reporting (IRS regulations final)

- <http://www.irs.gov/govt/fslg/article/0,,id=226894,00.html>
- Agencies no longer file Form 1099-MISC for payments made via payment card
- Payment card payments will reported by credit card companies

Effective January 1, 2012: 3% Withholding (IRS Regulations not final)

- Proposed regulations: <http://www.irs.gov/govt/fslg/article/0,,id=204409,00.html>
- Interim guidance on payment card payments: http://www.irs.gov/irb/2010-52_IRB/ar15.html
- Certain payments for property and services
- Withholding on payments greater than \$10,000
- There are exemptions in the current proposed regulations

Effective January 1, 2012: Expanded 1099-MISC Reporting (IRS Regulations not final)

- <http://www.irs.gov/newsroom/article/0,,id=225029,00.html>
- Payments for **goods and services** more than \$600 per year
- Includes **corporations**

Enterprise Payment Services (EPS)

- Payments
 - Preferred payment path for most payments
 - Strongly encourage the use of the Statewide Vendor file
 - Exception table
 - 950 interface record layout affected
- Agency input
 - Specific questions about payments
 - Understand the use of type of payee and subobject
 - Major interfaces
 - § Data processed through EPS
 - § Data returned to agency
 - IRS Form 1099-MISC reporting
 - Need the right people in the discussion (Finance, IT)
 - § Contact Jayda Williams to coordinate a conversation
 - § Jayda.williams@ofm.wa.gov (360) 725-0189

- Agency Vendor file converted to Statewide Vendor file
- Transparency
 - Stakeholders are demanding transparency in government
 - <http://www.fiscal.wa.gov/>

All of this is really important!

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- Agencies are responsible for compliance