Enterprise Payment Services Project (EPS)

FMAC

August 26, 2010

Background: What has occurred at the federal level?

- **3% Withholding (IRS Regulations not final)**
- IRS Code Section 3402(t)
  - Regulations still draft – *they could change!*
- Effective for payments made on or after January 1, 2012
- All state governments are required to participate
- What do the current draft regulations say?
  - Certain payments for property and services
  - Withholding on payments greater than $10,000
    - Cannot divide payments to avoid withholding
  - Credit card companies not responsible
  - Reported on IRS Form 1099-MISC

3% Withholding (continued)

- Who is subject?
  - Individuals
  - Trusts and Estates
  - Partnerships
  - Associations
  - **Corporations**

3% Withholding (continued)

- There are exemptions in the current draft, such as:
  - Payments otherwise subject to withholding
  - Payments for real property
  - Payments for retirement benefits, unemployment compensation
  - Payments of interest
  - Public assistance payments made on the basis of need or income
  - Payments to other government entities, foreign governments, Indian tribes
  - Payments made in emergency or disaster situations

Background: What has occurred at the federal level (continued)?

- **Expanded 1099-MISC Reporting (IRS Regulations not final)**
- Passed earlier this year as a part of Health Care Reform
- Effective for payments made on or after January 1, 2012
- Payments for goods and services more than $600 per year
- Includes **corporations**
- Does not include credit and debit card payments
- Potential for many more Forms 1099 to be produced

Expanded 1099-MISC Reporting (continued)

- These regulations *could also change!*
  - Amendment proposed to repeal the expanded reporting requirement
  - Amendment proposed to raise the reporting threshold to an amount greater than $600

What current regulations will be included in the project?

- **Current IRS Regulations**
- In effect for many years:
  - Backup withholding
  - Foreign withholding
- As OFM analyzes the new regulations, current regulations will be considered

What does this mean?

- Agencies will need to be very familiar with current and new IRS regulations
- Agencies will need to be diligent to implement solutions that are developed

Research Projects

- **OFM met with and surveyed agencies:**
- Business analysis
  - DOT, DSHS, ESD, DOR, WSP, GA, LNI
  - Current processes related to vendor payments and withholding
- Survey to all AFRS agencies on use of:
  - Agency vendor file
  - "Pseudo" vendor numbers (V0D0, V0D1)
  - Withholding