FORM 1099
Tax Reporting Update for Year-End, 2014

BY MARIANNE COUCH

Each year, it seems that accounts payable (AP) faces additional challenges in tax information reporting. This year is no exception. While the Form 1099-MISC for tax year 2013 has not changed, plenty of other modifications have occurred. For example, the IRS has extended the taxpayer identification number (TIN) truncation program and has also released a new Form W-9 (Request for Taxpayer Identification Number and Certification). But it's the Foreign Account Tax Compliance Act (FATCA) that presents the biggest challenge for AP. Let's first review the changes with the TIN truncation program.

TIN Truncation Allowed for Electronic Filing

Filers may truncate the payee's taxpayer identification number (TIN) on the copy of the Form 1099 sent to the payee (the statement). Previously, filers were permitted to truncate TINs only on paper statements but, beginning with the January 2014 filing, filers may also truncate TINs on electronic statements. To truncate, filers use Xs or asterisks in place of the first five digits so that a TIN of 123-45-6789 will appear on the statement as XXX-XX-6789 or ***-**-6789. Payers may not truncate the TIN on the Forms 1099 sent to the IRS, whether on paper or electronically, and truncation of Employer Identification Numbers (EINs) is not permitted.

Exemption Code Now on Form W-9

Due to the Foreign Account Tax Compliance Act (FATCA), the IRS has revised the Form W-9. The new version requests that payees provide an "exemption code" to claim exemption from Form 1099 reporting. The 12 numerical codes can be found at www.irs.gov/pub/irs-pdf/fw9.pdf in the Form W-9 instructions. As of October 2013, it appears that the exemption code is not required and that payers may rely on Forms W-9 claiming an exemption from Form 1099 reporting even if the exemption code is left blank. However, IRS clarification on this matter is still forthcoming.

The new version of Form W-9 also includes codes for payees to claim exemption from FATCA withholding and reporting. These codes "apply to persons submitting this form for accounts maintained outside of the United States by certain foreign financial institutions. Therefore, if [the payee is] only submitting this form for an account [it] hold[s] in the United States, [it] may leave this field blank."

Therefore, in most cases in AP, the payee can leave the FATCA code blank. However, the instructions for the FATCA codes are found on page 3 of the Form W-9. Payers will need to direct payees to the applicable information, or include on the face of the form the most relevant guidance from the instructions. Payers are permitted to create a substitute Form W-9 provided certain requirements are met, which payers can find in the "Instructions for the Requester of the Form W-9."

FATCA's Withholdable Payment

U.S. persons (U.S. citizens and residents, and entities organized under U.S. law) are subject to U.S. tax on their worldwide income. FATCA's focus is to prevent citizens and residents from hiding income offshore in an effort to avoid U.S. taxation. Beginning January 1, 2014, FATCA mandates that withholding agents obtain certain documentation or certifications from foreign payees regarding their U.S. account holders or owners when making a FATCA "withholdable payment." Implementation of the withholding is to occur in phases, and the IRS recently delayed the first phase until July 1, 2014.

FATCA defines a *withholdable payment* as "any payment of U.S.-source interest, dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits and income (FDAP income), and any gross proceeds from the sale or other disposition of any property of a type which can produce interest or dividends from sources within the U.S."

FATCA has necessitated the creation of a new Chapter 4 of the Internal Revenue Code, which works in conjunction, and sometimes in conflict, with existing Chapter 3. Chapter 3 governs the current Form 1042-S withholding and reporting regime for payments of U.S. source income to non-U.S. persons. Chapter 3 requires withholding agents to withhold 30% from, and report payments of, U.S. source income paid to non-U.S. persons on Form 1042-S. The 30% withholding is required absent an exception, such as application of income tax treaty benefits or a valid claim that the income is effectively connected with the conduct of a U.S. trade or business ("ECI").

FATCA focuses on payments to Foreign Financial Institutions (FFIs) or Non-Financial Foreign Entities (NFFEs). Withholding agents must determine whether they are making withholdable payments to FFIs and/or NFFEs and obtain from them the appropriate certifications on the new Form W-8BEN-E. The FATCA analysis of the payment is to be completed before the Chapter 3 analysis. If the FATCA analysis results in a withholding requirement, no Chapter 3 analysis is conducted. There will be no requirement to withhold 60% in U.S. federal income tax from a payment. Due to these requirements, the IRS has significantly modified the Forms W-8. As of this writing, these modified forms are currently available in draft format only, and the instructions have not been released.

FATCA also requires that U.S. corporations document their domestic status. To avoid FATCA withholding, a U.S. corporation must provide a Form W-9 or other allowable documentation proving U.S. status, such as a copy of its Articles of Incorporation. A withholding agent that does not obtain the appropriate documentation will be required to presume the entity is foreign and subject to FATCA withholding. Consequently, FATCA renders obsolete the "eyeball" test that many payers have used to exempt U.S. corporations from both Form W-9 solicitation and Form 1099 reporting. Note that, even if a withholding agent is not required to withhold 30% from a withholdable payment pursuant to either FATCA or Chapter 3, the payment must still be reported on Form 1042-S.

While we have seen information reporting provisions increase over the years, implementation of FATCA is probably one of the bigger challenges AP has faced. If your organization has not already addressed these upcoming changes, we strongly encourage you to do so, as the clock for meeting the requirements is ticking. ■

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Procedures and Fixes for VENDOR FILE MANAGEMENT

BY SHERRY DEPEW

A vendor file must be kept up to date with current and relevant data. It is a difficult undertaking and there is hardly a simple fix once your vendor file has become saturated with outdated information and duplicate records. Maintenance and management is an ongoing process and requires constant attention. Any firm promising immediate vendor-file cleansing should be avoided. They typically update files with warehoused data and edit the file based on very general rules. Although these processes are better than doing nothing, they are at best a shortcut compared to larger, more comprehensive solutions.

There are two considerations to keep in mind when conducting maintenance on your vendor file. First, it's important to develop procedures to prevent incorrect or incomplete data from getting into new vendor files. Second, and equally important, consider how you can clean existing files as data become outdated and vendors begin to duplicate. Understandably, most people assume that proper vendor setup will lead to a universally clean file. Unfortunately, this is not always the case. Industry surveys reveal that up to 7% of vendors change their company name every year. In the midst of tough economic times it follows that an even larger number of vendors will be shifting their ownership and structure to stay vital in the current financial landscape. Thus, even a "perfect" vendor file will develop problems over time if not maintained correctly.

Internal Rules and Measurement Tools

When setting up new vendors, there are a number of current tools to utilize, and best practices to employ. Create both internal rules for your staff, and measurement tools and target metrics to ensure uniformity and quality of new vendor data. Always measure activity—as the saying goes, "What gets inspected gets respected." When evaluating vendor setup tools consider employing vendor self-service portal tools

Most new portal products are highly configurable and enable you to customize your vendor on-boarding process. It is important to seek out vendor self-service functionality because it will shave hours off your weekly workload but won't add significantly to the work the vendor must do to relay their company information. When entering vendor data there are a number of well-known best practices to keep in mind, including naming conventions, duplicate vendor screens, parent-subsidiary matching, TIN matching, third-party database consulting, U.S. Postal Service review, fraud screens (i.e., Office of Foreign Assets Control database, prison systems list), and much more. If your company is not currently employing these methods, it is recommended that you meet with a consultant to help implement these ideas. It is also wise to employ an internal specialist for vendor setup to limit the deviation from one vendor setup to the next.

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When approaching your existing file it is a good practice to purge outdated vendors. This is not always possible given the nature of your particular company's buying cycle, but wherever applicable it is helpful for AP departments to purge vendors that have been inactive over the past 12 to 18 months. The cutoff time is an internal decision. You can consult your network of colleagues and ask what type of cutoffs they employ and why. Often, purging outdated vendors and then reinstating or setting them back up if needed is a preferred, and less expensive, alternative to allowing your vendor file to hold data that has aged beyond two or three years.

Vendor file maintenance is a vital and important process. In my career as both an AP manager in the Fortune 500 and as a supplier to AP managers, I have seen proper vendor file management lead to time-saving of hours per week, as well as millions of dollars of bottom-line protection. If the ideas in this article are enough to get you interested in vendor file management, do consult any number of experts. The time invested in a well-maintained vendor file will pay for itself almost immediately. ■

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