

Overview of 1099 Reporting for Unincorporated Vendors

Introduction

Agencies and departments often pay individuals who are not their employees for services rendered. If the Department of Education (DOE), through the use of Educational Initiative Funds (EIF), Accreditation Funds (AF), and Substitute Pool Funds (SPF) paid a non-corporate payee (the “unincorporated vendor”) a total of \$600 or more during a calendar year; the DOE must report the payment(s) via a “Summary by Vendor Listing” to the Department of Finance (DOF) by January 25th of each year. This report will only include the unincorporated vendors that were paid \$600 or more through EIF, AF, and SPF inclusive of the payment(s) made to the same unincorporated vendor across other schools that utilize said funds during a calendar year period (i.e., January 1st to December 31st).

Now, as outlined below in the section entitled “Internal Procedures”, the “Summary by Vendor Listing” is used by the DOF for reporting to the Virgin Islands Internal Revenue Bureau (IRB) Form 1099 Miscellaneous (MISC); with a duplicate Form 1099 sent to the unincorporated vendor. Note that, generally payments to corporations are not reportable. Form 1099 (MISC) is used by the DOF to report **non-employee payments** and serves two purposes:

- Individual payees use Form 1099 information to file their individual tax returns, and
- The IRS matches the Form 1099 to the payee's income tax return to ensure the income has been reported.

If more than one division or unit within the DOE is paying the same unincorporated vendor from EIF, the payments must be accumulated and/or consolidated by vendor.

Internal Policies

Independent contractors and other individuals who work for themselves will need to report their Social Security Number (SSN) or business Tax Identification Number (TIN) to the DOE when using EIF. This is done using Form W-9. Copies of Form W-9 should be kept at each school or can be downloaded at <http://www.irs.gov>.

All unincorporated vendors that are paid from EIF, AF, and SPF must complete this straightforward form, which requires the vendor to provide their name, address and Social Security Number. Conversely, contractors who have a separate business entity, must provide their name, address and Employer Identification Number (EIN) of their business. To ensure proper stewardship of EIF, AF, and SPF the DOE must ensure that a Form W-9 exists for each unincorporated vendor prior to providing any payments to said vendor. The DOE should track any changes to payee information (e.g., name, address and taxpayer identification number) to ensure successful mail delivery of 1099's.

Separately, the Form W-9 also asks whether the unincorporated vendor is subject to backup withholding. This is withholding at a flat rate of 28% on payments made to the unincorporated vendor or their business under certain circumstances. There are two common reasons for backup withholding: **1)** the unincorporated vendor name and SSN as provided on Form W-9 don't match

the IRB's records, or 2) the unincorporated vendor may have outstanding tax debts and the IRB has notified the DOF that the unincorporated vendor is subject to mandatory backup withholding until the taxes are paid in full. If any of these circumstances are revealed in advance by the unincorporated vendor please contact the DOF for further information.

Internal Procedures

To help the DOE comply with the requirement to properly report 1099's via imprest funds established per the EIF, AF, and SPF the accounting system(s) used at the school level should capture 1099 related data by generating a "Summary by Vendor Listing" that includes the following data elements:

Vendor name

Vendor address

- Vendor Tax Identification Number (TIN)
 - Social Security number (SSN), or
 - Employer Identification Number (EIN)
- Vendor telephone number
- Total amount paid to Vendor

The "Summary by Vendor Listing" **must** be submitted to the Department of Finance (DOF) by January 25th of each year. This report should only include the unincorporated vendors that were paid \$600 or more through EIF; **inclusive** of the payment(s) made across other schools to the same unincorporated vendor that utilize EIF during a calendar year period (i.e., January 1st to December 31st).