



City and County of San Francisco

Office of the Controller

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One-Time Payment Guidelines

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APPROVED FOR DISTRIBUTION:

Ben Rosenfield, Controller

Purpose of Guidelines

The purpose of this document is to provide guidance to City departments (“Departments”) on when and how to process one-time payments in order to be in compliance with the Internal Revenue Service (IRS) 1099 tax reporting requirement.

Authority

These guidelines are issued under the Controller’s authority under:

San Francisco Charter, Article III, Sec. 3.105; and

1) San Francisco Administrative Code Chapter 10, Article I, Sec. 10.07

DEFINITION OF ONE-TIME PAYMENT

The one-time payment process in the City’s financial system is only for authorized non-recurring and non-1099 reportable payments to one-time vendors.

Allowable non-1099 reportable one-time vendor payments include:

- Non-1099 reportable **Claims and Judgments as well as Litigation expenses** – use sub-object 05311 for settlement of claims generally processed by the City Attorney and other responsible departments.
- **Tow Claim Judgments and Refunds** of improper tow charges – use sub-object 05311, generally processed by the Police Department and Parking and Traffic.
- **Refunds** of security deposits from liability or deferred credit account (e.g. GL 241, 249 for Port’s refund of customer deposits, Treasure Island’s refund of events security deposits)
- Payments against Agency Obligations (GL 219) (examples: payment from Trial Court Trust Account; District Attorney’s Bad Check program, Juvenile Probation restitutions.
- **Aid Assistance payments** (characters 036/037) – processed by Human Services Agency and not subject to 1099 reporting if paid directly to clients, including SSI retro payments to clients.
- **Working Families Credit** payments – non-1099 reportable tax credit, use sub-object 03910.
- **Elections’** poll workers (sub-object 02710) and polling places (sub-object 03051) payments with the assumption that the annual payments to any one individual will not exceed the \$600 limit in one tax year.
- Other examples include: reissue of ERS Retirement Allowances (sub-object 05511), reissue of payroll checks, Building Inspection Code Enforcement Rehabilitation Fund Underground Utility Program (sub-object 03599).

Procedures for Using One-Time Payments

All City department heads should establish internal policies and procedures to ensure accurate accounting and reporting of 1099 information to the Internal Revenue Service (IRS).

IRS 1099-Miscellaneous Reporting Rule

Payments to a corporation are generally not 1099-reportable, with the exception of medical and legal services.

- <http://www.irs.gov/pub/irs-pdf/i1099msc.pdf> or look at the IRS web site for general instructions.

The City must file Form 1099-MISC, Miscellaneous Income, for each person, non-employee and individual contractor or sole proprietor, to whom we have paid **during the tax year**.

- At least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest;
- At least **\$600** in rents, services (including parts and materials), prizes and awards, other income payments, medical and health care payments;
- **Gross proceeds to an attorney**, etc.

The City's Rule for One-Time (OT) Payment processing

- Typical use of "OT document type" in one-time payment involves one-time, **non-recurring payments to vendors** and expenses are paid out of liability accounts, agency obligations, special programs or funds.
- One-time payments are for paying vendors (not employees) for non-recurring, non-1099 reportable expenses. One-time payments are not for employee reimbursements, and should not be used for purchase of materials and supplies, or services.
- Departments must maintain proper controls and/or verification procedures to ensure accurate 1099 reporting. Documented misuse of one-time vendor payment may be grounds for possible suspension of security access to document type OT.

Requirement of encumbrances and regular vendor numbers when paying 1099-reportable expenses

- Submit completed W-9 form to provide tax identification information in order to request a regular vendor number to be set up in FAMIS by the Vendor File Support Group.
- Encumber funds and not use one-time document.
- When making payments that are considered taxable income to the recipients, departments must ensure to use 1099 reportable expenditure sub-object. Also make sure that the vendor is flagged as 1099-reportable. It remains the departments' responsibility to maintain and apply appropriate accounting procedures to ensure accurate 1099 reporting to the IRS.

System Interfaces of one-time (OT) Payments that are 1099-reportable

- When using system interfaces for OT payments that are 1099-reportable, completed W-9 of payees must be submitted to the Vendor File Support Group at the time of interface.

Exceptions of 1099-reportable expenses using One-Time payments

One-time payments should not be used for 1099-reportable expenditures. The following are exceptions of 1099-reportable one-time payments, on condition that departments submit W-9 information to the Vendor File Support Unit at the time of payment. Even when a 1099-reportable payment may be below the \$600 reportable limit, W-9 information is still required.

Departments are also required to provide certification in the FAMIS notepad to justify the use of one-time vendor payments and to certify that W-9 information has been provided. Note that 1099-reportable payments should not be made from revolving funds.

- **Aid Assistance payments** – Human Service Agency maintains W-9 information for non-client payees and submits W-9 information to Controller’s Vendor File Support Unit for update or set up of vendor numbers. Payments to non-client payees must use sub-object flagged for 1099-reportable. Additionally, department should use the correct sub-object to ensure proper recording in 1099, e.g. box 3 or type 07 for non-employee compensation versus sub-object 03652 (type 01) which will be reported in box 1 for rents/leases.
- **Claims and judgments, Litigation Expenses (legal fees, rents, etc.) – 1099 reportable**
 - Judgments-Legal fees should be recorded to sub-object 05323 (type 07), which will be reported in box 7 on the 1099-M.
 - Litigation expenses-Legal fees included in gross proceeds should be recorded to sub-object 05312 (type 11), which will be reported in box 14 on the 1099-M.
 - General litigation expenses should be recorded to sub-object 05321 (type 07), also reported in box 7 on the 1099-M. E.g. **District Attorney’s witness** lost wages payments.
 - For **rent/lease** expenses paid to non-clients engaged in the business of rentals and housing as a result of litigation, sub-object 05324 (type 1) should be used, which will be reported in box 1 on the 1099-M. e.g. **District Attorney’s** relocation expenses.
- **1099-reportable Public Defender’s payments to expert witnesses (keeping necessary confidentiality should not preclude compliance with IRS regulations and W-9 information is still necessary)** – use sub-object 02699 Other Fees (type 07). Do not make these payments from the **revolving fund**.
- Water department toilet rebates (sub-object 03820)

No One-Time or any FAMIS payments to City employees

Departments should pay employees for all employment services and fringe benefits through the City’s payroll system. Employees should not receive vendor payments which should be part of taxable employment compensation. Examples include:

- Any employee taxable fringe benefits, including assignment allowance.
- Professional services from workers employed by other departments, e.g. interpreter services. Arrange a work order with the appointing department to pay the employee through payroll.

Unacceptable One-Time Payments

- Revenue refunds, which should be processed as RR or RD Revenue refund document types in FAMIS.
- Employee reimbursements.
- Contractual services.
- Purchases of materials and supplies.

Existing Controls

Existing Controls:

1. Vendor numbers and expense sub-objects are flagged as either 1099 reportable or non-1099 reportable. Departments should ensure using the correct set-up for vendor numbers and sub-objects. Look up 1099 information on FAMIS screens 9510 and 5200.
2. Periodic matching of vendor payments file with the employees file to a) report to payroll the additional income to the employee b) inactivate the employee's vendor number.
3. Quarterly review of payments using 1099 reportable sub-objects to vendors without W-9 tax identification information.
4. Regular vendor numbers (excluding employees) require W-9 tax identification information at the time of set-up by Vendor File Support Group.
5. Interfaces of one-time payments require W-9 before payment, especially if 1099-reportable and exceeding \$600.

Summary

Rule: Departments should set up regular vendor numbers and encumber funds to the extent possible. One-time payments are only for limited use for non-1099 reportable and non-recurring vendor payments.

Exception: In order to accommodate systematic interfaces and confidential expenses, special arrangements could be made in advance for the departments to submit W-9 tax information to the Controller's Office to update the vendor records accordingly. Vendors and expense sub-objects must be flagged accordingly when making 1099-reportable payments.

It is the departments' responsibilities to ensure that taxable payments will be recorded and reported to the Internal Revenue Service correctly. Thus, it is highly important that departments use one-time payment only for critical needs and according to the special processing procedures to satisfy the Controller's requirements for proper use, review, and monitoring of one-time payment transactions.

City departments should ensure that all income paid to City employees are taxed and reported to the IRS by paying all compensation to employees through the payroll process. City departments should ensure that vendors provide W-9 information before payments made.

If a department is in doubt about whether payments to employees should be included in wages, it should consult with the City Attorney's Office tax team. For accounting-related questions, refer to the Controller's Fund Accounting Supervisors assigned to your departments.

Addendum to One-Time Payment Guidelines

The Public Defender's Office makes payments from their capital cases revolving fund, and may continue to do so while in compliance with the IRS 1099 tax reporting requirements. For purposes of confidentiality, however, Public Defender will restrict information to the minimum needed to meet the IRS 1099 reporting requirements. The following procedures need to be followed:

- 1) Public Defender will obtain completed W-9 forms from the payees as payments are made from the revolving fund. The department will send completed W-9 forms to Controller's Vendor File Support Unit for set up of vendor numbers. Vendor File Support Unit will be asked to flag the vendor with restricted access to tax ID for confidentiality purposes. FAMIS screen 9510 will not display the vendor's tax ID but is flagged as 1099 reportable Y with a W-9 submitted Y.
- 2) Public Defender will track revolving fund payments and submit annual payments made in a calendar year to the Controller's Office, 1099 Unit no later than the 10th day of January following the end of calendar year. A spreadsheet listing 1099 reportable payments to vendors should contain the following information:

Vendor Name:

Vendor Number:

Sub-object Number & Description:

Amount:

Purpose of payment: Calendar year 2XXX 1099 Reportable Payments xxxxx.
The information to be submitted does not provide confidential details of the payment.

- 3) Controller's Office 1099 Unit will review the information and prepare a journal entry for each vendor, using transaction code 230, to create the 1099 vendor record in FAMIS. The vendor 1099 records are excluded from the vendor payment website due to use of index code 99999 belonging to fund type 99 in the journal entry. The posted entry will show on FAMIS screen 6160 on the 1099 Totals under the vendor name and number. The posted vendor records will be included in FAMIS 1099 file to produce the 1099-MISC forms that are required to be mailed out no later than January 30.
- 4) Current contacts:
 - Public Defender's Office, Angela Auyong, tel. no. 553-1677
 - Controller's 1099 Unit, Carmen LeFranc, tel. no. 554-7645
 - Controller's Vendor File Support Unit, Annette Reardon, tel. no. 554-7880