



State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

March 14, 2007

TO: Chief Fiscal Officers
Vice Chancellors

FROM: Robert L. Powell 
State Controller

SUBJECT: Tax Exempt Bonds Interest Reporting Requirements

This is a follow up to the memorandum dated February 19, 2007 informing you of new reporting requirements for interest paid on tax-exempt bonds. Beginning with calendar year 2006, the Internal Revenue Code (IRC) stipulates that tax exempt interest paid by state or local government is considered a bond. In compliance with this code, the interest paid on tax exempt bonds now must be reported on IRS form 1099-INT. Tax exempt interest should be reported on a separate line of the invoice, with the correct debt interest account number and the "18"1099 code (tax exempt interest) to comply with the IRS requirements.

In order to flag the tax exempt interest for 1099 reporting, the tax amount must be recorded as a separate line on the invoice. The following accounts can be used depending on the interest type when entering the accounting distributions on your invoice line:

535321 Bond Interest Payments
535322 Anticipation Notes Interest Payments
535323 Capital Lease Interest Payments
535324 Other Interest Payments
535325 Other Interest Payments – Non Operating Used by Proprietary Funds Only

Since the 1099-INT forms for 2006 already have been printed, you will have to obtain and prepare these forms for appropriate vendors. The electronic file for 2006 transactions has not yet been sent to the IRS, so there is a brief period of time for NCAS agencies to update their 2006 invoices, where necessary, to flag tax exempt interest for reporting. Corrections must be made by close-of-business on March 22, 2007, to be included in the electronic file sent to the IRS. Please review your agency's 2006 transactions, and, if applicable, use the NCAS IMW screen to flag the tax exempt interest amounts as follows.

- If the tax exempt interest already is represented on a separate invoice line, simply enter the "18" code in the 1099 code field for that line.

MAILING ADDRESS
1410 Mail Service Center
Raleigh, NC 27699-1410

Telephone: (919) 981-5454
Fax Number: (919) 981-5567
State Courier: 56-50-10
Website: www.ncosc.net

LOCATION
3512 Bush Street
Raleigh, NC

- If the tax exempt interest was not on a separate invoice line, you will need to add two lines to the invoice. The first line should be for the amount of the tax, and should be flagged with the 1099 code. The second line should be a negative in the amount of the tax, thereby offsetting the first line amount. The second line should not be flagged with a 1099 code. Changes for previously closed months require the General Ledger Effective Dates (GED) to be reopened. Please call the OSC Support Services Center at (919) 875-HELP to request the reopening of the GED.

Making these correcting 1099 entries by March 22, 2007 will allow them to be included in the electronic file. In addition, these correcting entries will appear on subsequent reports to help agencies with preparing the vendor's 1099-INT form for 2006.

Since calendar year 2007 is underway, agencies already may have 2007 transactions that require flagging with the "I8" 1099 code. These transactions should be flagged in the same manner as the 2006 tax exempt interest corrections, as described above.

A copy of the February 19, 2007 memorandum along with the Survey of Compliance with IRS Tax Exempt Interest Reporting Requirements is attached for your information. If you have not returned your response to the survey, please email it to John.Morgan@ncosc.net. Please call the OSC Support Services Center at (919) 875-HELP if you have any questions about the tax exempt reporting requirements or appropriate NCAS procedures. The OSC appreciates your cooperation in meeting this federal reporting requirement.

Attachments

cc: Accounts Payable Managers

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NO. FSD 070006