State of North Carolina
Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

December 3, 2007

MEMORANDUM

TO: NCAS Chief Financial Officers
NCAS Accounts Payable Personnel

FROM: Robert L. Powell
State Controller

SUBJECT: Annual 1099 Processing

As in previous years, the final 1099 processing begins in early December. Attached please find the schedule and procedures for processing 1099 documentation. The process for reporting remains the same as last year.

Please review the attached schedule to ensure that your agency is in compliance. Due to the centralization of the 1099 reporting process, it is critical that all reports and the NCAS 1099 data are reviewed for accuracy by the requested deadlines so that the central data file for OSC transmission to the IRS can be created.

Please call the OSC Support Services Center at (919) 875-HELP if you have any questions, concerns, or require assistance with NCAS 1099 activities.

Thank you for your attention to this very important matter.

RLP/ri

Enclosure: 1099 Processing Procedures for Calendar Year 2007

MEMORANDUM NO. FSD 080002

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1099 Processing Procedures for Calendar Year 2007

Below are the time schedule and activities for this year's 1099 processing activities. All 1099 information, including any interest paid on tax exempt bonds, should have been recorded throughout the 2007 year by flagging invoices with the 1099 codes and reviewing the monthly 1099 reports. The end-of-year tasks should consist primarily of a final review of reports for errors and accuracy of data. To aid in this review process, the Office of the State Controller (OSC) will begin producing the 1099 reports on a weekly basis starting December 14, 2007.

As indicated in the 1099-processing schedule, the OSC will begin printing 1099's on January 10, 2008. To ensure accurate and prompt delivery, all forms will be printed and held at the OSC until an agency representative picks them up beginning January 16, 2008. Regardless of the number of 1099's to be printed by the OSC, agencies must pick up the 1099's prior to the January 31, 2008 deadline for issue to recipients. **The 1099's will be printed on laser paper, to ensure each copy will be legible for the recipient and the agency. Each agency will be responsible for placing their 1099's in the envelopes provided by OSC and mailing them.**

In March, the OSC will be the only transmitter for filing with the IRS, sending one file with all the NCAS agencies' data using an OSC Transmitter Control Code (TCC). Each agency will be reported under its own Federal ID number and is responsible for its data, but is not responsible for mailing in magnetic tapes of paper forms. The OSC will be filing with the IRS electronically in order to provide additional time for 1099 reporting. **There should be no direct reporting of NCAS data by the agency to the IRS.** As in the past, all 1099 information that is not on the NCAS will be the responsibility of the agency.

The following time schedule has been established to process 2007 calendar year 1099 information.

1099 PROCESSING SCHEDULE FOR CALENDAR YEAR 2007	
April 1-December 14, 2007	Review and correct monthly 1099 reports
December 1-31, 2007	Review 1099-1 Agency Contact List in XPTR for accuracy before 1099's are printed on January 10, 2008 (only the phone number will be printed on the 1099, names and extensions will not be shown).
December 14-December 28, 2007	"Zero-dollar checks" will run for all paying entities.
December 14, 2007	OSC begins running 1099 reports weekly.
December 31, 2007	The 2007 tax year reporting cycle ends.
January 9, 2008	This is the last day to make changes to 1099 data in NCAS.
January 10, 2008	OSC will print 1099 forms.
January 10- March 19, 2008	Agency can produce manual 1099 corrections and update NCAS for IRS electronic filing.
January 16-31, 2008	OSC will contact agencies to pick up 1099 forms from OSC.
January 16-31, 2008	Agencies will review 1099 forms.
January 31, 2008	This is the due date for issuing 1099 forms to recipients.
March 20, 2008	OSC will produce 1099 electronic file for filing with IRS.
March 22 and forward, 2008	Agency will produce manual 1099 corrections and manually report these to IRS.
March 31, 2008	This is the due date for OSC filing electronically to IRS.

Agencies that have remitted personal services payments to a non-resident of North Carolina for specified personal services performed in North Carolina are required to complete the form NC-1099PS. A listing of services that require this form for processing is available from the Department of Revenue website: http://www.dor.state.nc.us/. If you have any additional questions regarding the proper use of this form please contact Randy Thomas at the OSC, (919) 981-5488 or the Department of Revenue.

Non-resident Aliens (Foreign Nationals) are not eligible to receive 1099's. These transactions receive a 1042 or 1042S form which is produced out of the Windstar, Tax Navigator System.

Tax Exempt Interest Payments:

Beginning with calendar year 2006, the Internal Revenue Code (IRC) stipulated 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 recorded on a separate line of the invoice, with the correct debt interest account number and the "I8" 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

Please review your agency's 2007 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 "I8" code in the 1099 code field for that line.

- 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.

For detailed procedures on the 1099 process refer to the following link:

http://www.ncosc.net/sigdocs/sig_docs/documentation/policies_procedures/step_by_steps/1099_Withholding.html