

	AP-108
	Required IRS Forms for vendor payments
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	Approved By: Associate VP Finance & Controller
Effective Date: 1/1/2019	

<p>Purpose</p> <p>To promote compliance with Internal Revenue Service (IRS) Regulations, this policy provides guidance regarding the Illinois Institute of Technologies (IIT) tax withholding and reporting responsibilities related to supplier payments. IIT is liable for tax, penalties, and interest for failure to comply with these annual requirements</p>
<p>Policy</p> <p>For payments for services to independent contractors, other individuals, or unincorporated businesses of \$600 or more in a calendar year, IIT is required to report these payments to the IRS on Form 1099. Any payments for legal and medical services to corporations are also reportable on IRS Form 1099. The IRS allows for an exception to the requirement of producing a Form 1099 for most payments if the supplier’s business type is a corporation (as verified by Form W-9 or the invoice).</p> <p>A valid taxpayer identification number (TIN) will be obtained from a Form W9 that is requested at the time that new vendors are added to the Vendor Master File.</p> <p>In addition, there is a separate section under <u>Procedures</u> that addresses the tax withholding and reporting requirements as they relate to foreign visitors.</p>
<p>Definitions</p> <p>Backup Withholding - The process of withholding 24% tax from a supplier payment because the supplier has failed to provide a completed Form W-9.</p> <p>Form 1099 - An information form filed with the IRS and the supplier that reports total payments made during the calendar year (similar to a W2 issued to employees).</p> <p>Form W-9 - (Request for Taxpayer Identification Number and Certification) – form used to request the correct name and TIN combination of a supplier and allows the supplier to certify exemption from backup withholding.</p> <p>Form W-8BEN – (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) is required from any foreign person or organization. This forms identifies the party as a foreign person who may be subject to withholding.</p>

Form 8233 – (Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual) is required to be received from independent contractors and honoraria’s who are claiming an exemption for all or part of their income from income tax withholding due to a tax treaty that their country has with the U.S.

Form W-7 – (Application for IRS Individual Taxpayer Identification Number)

TIN - The Taxpayer’s Identification Number (TIN) and can either be an individual Social Security Number (“SSN”) or a business’ Employer Identification Number.

Procedures

- IIT’s Purchasing Departments are responsible for obtaining correct supplier name, address, social security number/employer identification number and type of organization for 1099 tax reportable payments to new suppliers prior to making the first payment.
- Purchasing will obtain this information from a Form W9 that is requested at the time that new vendors are added to the Vendor Master File. This is outlined in Policy AP-103, “Management of the Vendor Master File”.
- If the supplier does not complete Form W-9, the IRS requires that IIT backup withhold 24% tax on payments to the supplier. If IIT fails to obtain the TIN and does not withhold the 24% tax for a reportable payment, IIT is liable for the amount that should have been withheld plus penalties and interest.
- IRS reportable payments for services cannot be processed through Petty Cash funds, via expense reimbursement or via the P-Card.
- Accounts Payable is responsible for mailing Forms 1099 to the individual by the due date specified by the IRS which can be found at <http://www.irs.gov/pub/irs-pdf/f1099msc.pdf>.

Payments to Foreign Visitors:

- **Foreign source income exclusion**- Payments made by IIT to nonresident aliens for services performed in a country outside of the United States, are not subject to federal income tax or tax withholding, nor is there any U.S. reporting obligation. The exclusion applies only to individuals who are not U.S. residents or citizens. The services are considered to be “sourced” in the foreign country and, therefore, are not subject to U. S. tax laws.
- **Nonresident aliens for tax purposes**- A nonresident alien for tax purposes is someone who is not a citizen of the U.S., has been admitted to the U.S. for a specific purpose and time period, and does not meet either the “green card” test or the “substantial presence” test described in IRS Publication 519, “U.S. Tax Guide for Aliens”.
- **Tax Treaty**- Residents of certain foreign countries are entitled to reduced tax rates, or exemptions from tax for all or part of their earnings, depending on the applicable tax treaty between their country and the United States.

- **Tax forms required:** For ALL Independent contractors/Honoraria/Foreign Vendors- A ***W-8BEN form*** or “Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding” is required from any foreign person or organization. This is analogous to a W-9 for a U.S. Citizen or Resident. The form has space for dual addresses (foreign and local), Individual Tax Identification Number (ITIN) or Social Security Number and checkboxes for requesting exemptions or reduced withholding under a tax treaty.
- **For independent contractors and Honoraria who are claiming a tax treaty- Form 8233** is required to be received from independent contractors and honoraria’s who are claiming an exemption for all or part of their income from income tax withholding due to a tax treaty that their country has with the U.S. This form is submitted by IIT to the IRS and **REQUIRES** a U.S. Taxpayer Identification Number. If the foreign contractor or Honoraria do not have a taxpayer ID, they need to apply for one using the ***Form W7***.
- **For foreign vendor corporations-** The ***W-8BEN form*** previously discussed is used by foreign corporations to claim tax treaty benefits. It requires a U.S. taxpayer identification number.
- **U.S. Social Security number or Individual Taxpayer Identification Number-** Note that if the foreign party fails to get a taxpayer identification number, IIT will calculate and deduct the tax from the payment due even though they may otherwise qualify for the tax treaty exemption.

Guidelines

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References

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Responsibilities

Departments who solicit a new vendor.
Accounts Payable and Purchasing Departments

Required Forms

IRS Form W-7
IRS Form 8233
IRS Form W-8BEN
IRS Form 1099
IRS Form W-9