

Minnesota State Colleges and Universities Procedure for

Back-up Withholding from Local Fund Payments

Objective

To provide Minnesota State Colleges and Universities with procedures to comply with tax laws as they apply to certain payments made to vendors subject to backup withholding.

Scope

This procedure is for local fund payments coded to Internal Revenue Service (IRS) form 1099 reportable object codes made to vendors who are subject to backup withholding. Backup withholding on payments made with State Treasury Funds is handled by the Minnesota Department of Finance.

Background

The Internal Revenue Service requires that payers making certain payments to payees withhold and pay to the IRS a specified percentage of those payments under certain conditions.

Payments that may be subject to backup withholding include interest, dividends, rents, royalties, commissions, non-employee compensation and certain other payments including broker proceeds and barter exchange transactions, and reportable gross proceeds paid to attorneys. Payments that are excluded from backup withholding are real estate transactions, foreclosures and abandonments, cancelled debts, distributions from Archer MSA's, long-term care benefits, distributions from any retirement account, distributions from an employee stock ownership plan, unemployment compensation, state or local income tax refunds and qualified tuition program earnings.

For payments subject to backup withholding rules, withholding is required in the following circumstances:

- a) When a payee has not supplied their federal taxpayer identification number
- b) When a vendor's federal taxpayer identification number and tax name do not match IRS records as reported to Minnesota State Colleges and Universities via IRS Notice CP2100A and when the payee does not return Form W-9 certifying their federal taxpayer identification number and name within the required time frame as requested by Minnesota State Colleges and Universities via a First B Notice.

Current backup withholding rates can be found in the Backup Withholding Rate Table in IRS Publication 1281. For tax years 2003-2010, the backup withholding rate is 28%.

Procedure for Backup Withholding on Local Fund Payments

- Important:** Each institution is responsible for ensuring that a Federal Taxpayer Identification Number is on file before making payment to a vendor. If the MAPS vendor file does not have and the vendor does not supply a federal tax identification

number, the institution must backup withhold on all payments subject to backup withholding rules. Additionally, each institution is responsible to design procedures to ensure that their business office taxes those vendors that are subject to backup withholding appropriately and reports and remits the tax withheld to Tax Services in a timely manner.

Prior to authorizing vendor payments:

- When making local fund payments, if the payment and vendor are subject to the 28% backup withholding tax, you will receive this message in ISRS: “This vendor is subject to 28% backup withholding” and the message will calculate the amount to pay the vendor and amount of tax to remit to Tax Services. A screen shot example of this message can be found at the end of this procedure.

- Inform the vendor that 28% will be withheld from their payment and refer the vendor to Tax Services for further information. Tax Services will request that the vendor complete and sign a W-9 form providing their business name, tax identification number and business entity type. If the vendor does not supply their tax identification number or the information requested on the W-9, 28% backup withholding is required.

- New Vendors: if the object code used is one that is subject to backup withholding and the vendor does not provide their federal taxpayer identification number, you must withhold 28% of the payment. Once subject to the backup withholding requirements, the vendor should contact Tax Services for information on how to be removed from withholding requirements. .

Processing Local Fund Payments Subject to Backup Withholding:

- **Note:** When payments to the vendor are processed and backup withholding tax is deducted, a tax check should be issued under **Vendor Account 200017343-16**. The same day the vendor payment is made the tax withholding check should be mailed to Tax Services (see Office of the Chancellor address below).

- Compute the amount of federal tax to withhold by multiplying the vendor payment by 28%. Subtract this amount from the payment made to the vendor. Contact Tax Services for assistance.

- Use **AC0222UG – P/O Encumbrance Liquidation** screen for encumbered amounts or **AC0210UG – Direct Payment Voucher Entry** screen for non-encumbered amounts to process a payment to the vendor for the amount owed less required tax withholding. Use the appropriate expense object code.

- Use **AC0212UG – Expense Voucher Entry** screen to process an expense voucher for the amount of tax withheld using the vendor number and the

appropriate expense object code. The amount of tax withheld will be 28% of the gross payment.

- Use **AR2206UG – General Receipts by G/L** screen to process a cash receipt for the amount of backup withholding tax. The cash receipt must be recorded to a General Ledger in the LSO appropriation and to object code 8668, Backup Withholding Tax.
- Use **AC0219UG – General Ledger Payment Voucher Entry** screen to process a payment to the Office of the Chancellor, Tax Services for the amount of tax withheld - **Vendor Account 200017343-16**. Enter the General Ledger account that the cash receipt was recorded to and object code 8668, Backup Withholding Tax.
- Mail the local check generated from the direct payment transaction (i.e., the tax withheld) to:

Minnesota State Colleges & Universities
Attn: Tax Services
30 7th Street East, Suite 350
St. Paul, MN 55101
- Complete the Local Backup Withholding spreadsheet and send the information electronically to Tax Services.
- Contact the Office of the Chancellor Tax Services as needed:


Steve Gednalske, Tax Administrator, (651) 632-5016
Email: Steve.Gednalske@so.mnscu.edu
Ann Page, Tax Specialist, (651) 632-5007
Email: Ann.Page@so.mnscu.edu

AC0210UG 2.31 Northland Community & Technica August 16, 2007

Occurrence Date: Aug 16, 2007 Transaction Type: py Trans Query: GKp1
Tran Description: test
Vendor # /Person ID: 10962700201 FAMILY BOWL
HWY 32 S PO BOX THIEF RIVER MN 56701
State Agency?: N
Date to be Processed: Aug 16, 2007
Date on Check: Aug 16, 2007 Single Check Flag: N Check Total
Vendor Invoice #: MAPS PV Type Code: 500.00

Line Item	FY	Cost Center	Account Title	Object Code	Object Title	Amount	D/C	Balance Query
01	2008	119001	Cafeteria	1910	Spkr & Ent	500.00	D	GKp2

MnSCU Integrated Statewide Records System

 This vendor is subject to a 28% backup withholding. The vendor payment should be \$360.00. The payment to Tax Services should be \$140.00. Do you want to change payment to \$360.00?

Print Check immediately --> GKp3

Accept Quit Store Clear