

## 2.011 Requirements When Paying U.S. Persons

### I. Definitions

United States (U.S.) persons include the following:

- A. Citizens, permanent resident aliens, and resident aliens of the United States.
- B. Foreign persons who are married to U.S. citizens and elect to be treated as a U.S. citizen for tax purposes.
- C. Partnerships created or organized in the United States or under the law of the United States or of any State, or the District of Columbia.
- D. Corporations created or organized in the United States or under the law of the United States or of any State, or the District of Columbia.
- E. Any estate other than a foreign estate.
- F. Any trust if the following conditions are met:
  - 1. A court within the United States is able to exercise primary supervision over the administration of the trust, and
  - 2. One or more United States persons have the authority to control all substantial decisions of the trust.

Refer to [Policy 2.002 Definitions](#) for additional defined terms.

### II. Vendor Forms

- A. All new U.S. vendor records require that a vendor complete one of the following two (2) forms, as appropriate:
  - 1. [IRS Form W-9](#) – This form is used to request the U.S. taxpayer identification number (TIN) of a U.S. person (an individual or entity), and to request certain certifications and/or a claim for exemption. If an individual is being paid for expenses, use a UH Form WH-1 rather than an IRS Form W-9.
  - 2. [UH Form WH-1](#) – This form may be used for all individuals, and is required when making a payment for expenses. The employment status of the individual, and the individual's employer's name, is collected on the UH Form WH-1.
- B. Information collected from the IRS Form W-9 and UH Form WH-1 is added to the RCUH vendor record, including the (1) taxpayer's name, (2) business name (field may be left

blank if it is the same as the taxpayer's name), (3) federal tax classification, (4) U.S. TIN, and (5) vendor mailing address.

- C. If a vendor refuses to provide an IRS Form W-9 or UH Form WH-1 for reportable payment transactions, or if the vendor does not have a U.S. TIN, the payment may be subject to backup withholding at a rate of 28%.

### **III. Types of Payments Reportable to U.S. Persons on an IRS Form 1099-MISC**

#### **A. The following payments made by RCUH are reportable:**

1. Royalties of \$10 or more;
2. Rent of \$600 or more (unless paid to a real estate agent);
3. Fees for services, honoraria, and unsubstantiated travel reimbursements of \$600 or more;
4. Payments of \$600 or greater to corporations, when the corporation is comprised of attorneys or medical/healthcare providers;
5. Prizes, awards or other income payments of \$600 or more (excluding scholarship/fellowship); and
6. Cash payments for fish (or other aquatic life) if purchased from anyone engaged in the trade or business of catching fish.

#### **B. The following payments made by RCUH are not required to be reported:**

1. Payments to corporations (except for attorneys or medical/healthcare providers paid \$600 or greater);
2. IRS section 501 exempt organizations that provide proof of their tax-exempt status;
3. Individuals who receive scholarships or fellowships for which services are not required;
4. Reimbursements of substantiated business expenses that meet accountable plan rules;
5. Rent to real estate agents; and
6. Payments for goods.

### **IV. Tax Reporting/Payment Processing**

- A. RCUH is required to issue an IRS Form 1099-Misc to U.S. persons for the types of payments and dollar thresholds described above. RCUH Accounting selects payment

records from the financial system based on a combination of (1) the object code assigned to the payment document, and (2) the vendor's federal tax classification. For accounts using RCUH budget categories, the selection for reporting is based on the budget category type code rather than the object code.

- B.** All payments made to *or* on behalf of a resident alien must be submitted manually to RCUH Disbursing.
- C. Third-Party Payments** – When payments are not made directly to a recipient, the RCUH financial system does not record the recipient's name, dollar amount, or services received, and no vendor record for the recipient may exist; hence, reportable payments cannot be assigned to an individual recipient. Depending on the circumstance, a payment may be (1) income that is IRS Form 1099-Misc reportable (i.e., services), or (2) income that is not IRS Form 1099-Misc reportable (i.e., scholarship/fellowship or business expenses).
1. For third-party payments that are IRS Form 1099-Misc reportable, programs are responsible for the following:
    - a. *Determining/confirming the payee's tax residency.* If the payee is determined to be a nonresident alien, see the TAX REPORTING/PAYMENT PROCESSING section, VI, in [Policy 2.012 Requirements When Paying Foreign Persons](#);
    - b. Collecting an IRS Form W-9 (or UH Form WH-1 if applicable) if a payment meets the IRS Form 1099-Misc reporting threshold, **and** submitting the form and amount paid to RCUH Accounting at the time the recipient receives his/her payment via the third-party vendor or method. Due to possible sensitive information in the IRS Form W-9, it should either be sent in hardcopy, or sent to [mbrooks@rcuh.com](mailto:mbrooks@rcuh.com) via the UH File Drop system, at <https://www.hawaii.edu/filedrop/>; and
    - c. If a program anticipates that multiple payments during a calendar year (direct and third-party) will result in a reportable payment (usually a \$600 or greater payment or cumulative payments (or \$10 or greater for royalties) during a calendar year), a log of the recipients' names, addresses, U.S. TINs, amounts received, and signatures should be kept. At the end of the project activity or annually by January 10th of the following year (whichever occurs first), the program must submit a list of recipients who received reportable payments, along with the other information provided by the recipients in the log, to RCUH Accounting. The list will be used by RCUH Accounting to issue an IRS Form 1099-Misc return. Programs may be asked to provide IRS Form W-9s or UH Form WH-1s to verify recipients' U.S. TINs.
  2. For third-party payments that are not IRS Form 1099-Misc reportable, programs are responsible for responding to any recipient inquiries about the amount of financial assistance received. It is recommended that programs create an expense summary to track amounts paid on behalf of each recipient, as third-party payment information by recipient is unavailable in the RCUH payment system. See the sample Expense Summary Tracking Sheet.

3. For more detailed requirements, refer to the Third-Party Payment sections in these policies:

[Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals;](#)

[Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\);](#)

[Policy 2.008 Tax Treatment of Business Expenses \(Service-Related\).](#)

## **V. Relevant Documents**

[Policy 2.002 Definitions](#)

[Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals](#)

[Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\)](#)

[Policy 2.008 Tax Treatment of Business Expenses \(Service-Related\)](#)

[Policy 2.012 Requirements When Paying Foreign Persons](#)

[IRS Form W-9](#)

[UH Form WH-1](#)

**Date Revised:** 2/02/2017