

Sonoma County Office of Education  
Business Services

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**EXTERNAL FISCAL SERVICES UPDATES  
FINANCE USER GROUP MEETING: MARCH 7, 2018**

***Escape 1099 Flag and Form W-9:***

In order for Escape to issue a 1099, the vendor must be flagged for 1099. This is done in the vendor set up in Section 6-Payment Information. In the 1099 field, flag the vendor “Yes” for 1099 (see 1099 Reporting 2017 documentation, page 11). When the 1099 field is set to “No”, Escape will not issue the vendor a 1099.

Always set up a vendor in Escape according to the Form W9 they have provided you. If the Form W-9 is either incomplete or you know it is incorrect, reach out to the vendor and have them complete the most current Form W-9 revised November 2017 (posted under SCOE Resources).

***Foreign and California Nonresident Alien Vendors:***

Foreign vendors are required to complete the appropriate Form W-8 instead of the Form W-9 normally used. They do not receive a Form 1099-Misc, but instead the LEA is required to complete and provide Form 1042-S to the vendor by March 15 each year and separate reporting is required (see detailed instructions attached).

California nonresident vendors are required to complete Form W-9, but in addition to providing the vendor Form 1099-Misc, the LEA must also complete and provide Form 592-B to the vendor by January 31 each year and separate reporting is required (see detailed instructions attached).

**Escape Set-Up Recommendation regarding paying a Foreign Vendor, non-US vendor and/or Out of State vendor:**

**NOTE: A district can flag a Vendor Record in Section 6–Payment Information to Hold Payments. If this flag is set to “Yes” then payments once Approved will NOT print. It is important to remember to unflag the vendor record, otherwise the payments will not process as expected. It is Escapes recommendation to set the Hold Payments flag to “Yes” in the vendor requisition (as stated below).**

1. When setting up the initial requisition, set the Hold Payments flag to "Yes", and make sure to insert a comment. This will allow the AP Clerk to understand and review the payment/taxes prior to paying the invoice.
2. When paying the invoice manually calculate and deduct the 7% CA State Tax, and 30% Fed Tax. Deduct this amount from the amount being paid to the vendor. The District would need to establish a 95XX Liability account before making the payment. When the payment is made the full amount will go into the expense account, and the 95XX account with a negative dollar amount for the 7% State and 30% Federal. This will reduce the amount to the vendor
3. Set up a payment to the State of California for the 7% tax referencing the original req.
4. Set up a payment to the IRS for the Out of Country tax 30% (Fed Taxes) referencing the original req.
5. You would then need to manually create a form 1042–S and 592–B.

## **FOREIGN AND CALIFORNIA NONRESIDENT ALIEN VENDORS PROVIDING SERVICES IN CALIFORNIA**

Foreign vendors are required to complete the appropriate Form W-8, instead of the Form W-9 normally used. Similar to the W-9, it is used for reporting when services are supplied. Foreign vendors do not receive a Form 1099 Misc, but instead are reported on Form 1042-S. This is applicable whether the foreign vendor is an individual, partnership or corporation.

California Nonresident vendors are required to complete Form W-9, but in addition to a 1099 Misc, they must also be furnished with Form 592-B.

**FEDERAL:** When a non-US vendor is paid, additional and separate reporting requirements are necessary. Foreign vendors providing services within the US may be subject to federal tax withholding up to 30% on all payments. There are no threshold amounts for foreign vendors:

1. If the vendor claims treaty benefits on payments for services rendered in the U.S., have the vendor complete Form 8233 for determination of tax treaty.
  - a. The form needs to be mailed to the IRS or faxed to the IRS at 267-941-1365 within 5 days of your acceptance.
  - b. Allow 10 days to see whether the IRS has any objections to the form.
2. If the IRS objects to the Form 8233, then withhold at 30% for Federal (see IT's recommendations for paying a foreign vendor through Escape).
3. If you make a payment to a foreign vendor for services, you must file a Form 1042-S. This applies even if you did not withhold tax because the income was exempt from tax under a US tax treaty:
  - a. Federal form 1042 must be filed by March 15
    - i. All federal deposits must be made EFTPS and are due according to frequency of your deposits (see Instructions for Form 1042)
    - ii. Must file Form 1042-S by March 15.
    - iii. Use 1042-T to transmit original paper forms 1042-S

**STATE:** When a non-US vendor is paid, additional and separate reporting requirements are necessary. Foreign and non-resident vendors providing services within the state may be subject to 7% state income tax withholding on payments of \$1,500 or more:

4. Have the vendor complete Form 590 to determine California Residency. Payments (including payments of leases, rent, and royalties for property located in California) made to California nonresidents, including corporations, limited liability companies and partnerships that do not have a permanent place of business in this state, may be subject to 7% state income tax withholding.
  - a. Non-resident withholding applies to all foreign vendors unless the total payments are not greater than \$1,500 *or* the payment is made to a CA resident or Corporation that has a permanent place of business in California.
5. Have the vendor complete Form 588 to request a withholding waiver.
  - a. Allow 21 business days before making payment.
  - b. When approved you will receive a waiver approval letter from the FTB (Franchise Tax Board).
6. Have the vendor complete Form 587 to allocate the amount of Services that are performed within the State of California.
  - a. Only payments sourced within CA are subject to withholding.
7. Withholding begins as soon as the district determines that the total payments for the calendar year will exceed \$1,500 (see IT's recommendations for paying a foreign vendor through Escape).
8. Filing and Making Payments:
  - a. State form 592 filed quarterly (do not need to file electronically when the number of payees on form 592 is less than 250)
    - i. Send payment due along with Form 592-V and Form 592 to the  
Withholding Services and Compliance  
Franchise Tax Board  
PO Box 942867  
Sacramento, CA 94267-0651
    - ii. Cut AP check from Escape out of expense account
9. Before January 31 following the close of the calendar year, provide the vendor with Form 592-B Resident and Nonresident Withholding Tax Statement.

**NOTICE OF INTENT TO WITHHOLD  
(Foreign Individuals & Entities)**

As a foreign vendor or Independent Contractor doing business with the \_\_\_\_\_ school district you must complete applicable tax forms that are required to determine your tax and withholding status. Please complete and return all applicable forms. Failure to receive the completed forms can delay or cause adjustments to your payments. Required forms and instructions can be found on the IRS website <http://www.irs.gov>

As a foreign individual/entity you are required to submit one of the U.S. Federal Forms W-8. The IRS requires a mailed original ink signed and dated form to be obtained. A faxed copy or emailed copy is not acceptable. The foreign individual/entity will need to determine the type of Form W-8 that applies to them.

Foreign individuals receiving payments for services, rentals, or royalties may be subject to a 30% withholding tax unless you qualify for exemption through Form W-8. **If services or rentals are provided in the state of California, an additional withholding rate of 7% will be withheld from your payment. California does not recognize any foreign treaty exemptions.**

A brief description of each form is listed below. Please refer to the IRS instruction forms for specific details about each W-8 form.

**W-8BEN**      Used by individuals to claim foreign status or treaty benefits. You must complete:

- Part 1 Identification
- Part 3 Certification
- In addition complete Part 2 to be exempt from 30% withholding
- If you are an individual payee claiming treaty benefits on payments for services rendered in the U.S. you must provide Form 8233, instead of filling out Part 2 of W-8 BEN

**W-8BEN-E**      Used by entities to claim foreign status or treaty benefits. You must complete:

- Part 1 Identification
- Part XXIX (29) Certification
- In Addition must complete to be exempt from 30% withholding Part III (3) to Claim a Tax Treaty

**W-8ECI**      Used primarily by the payee or beneficial owner indicating that they have a physical location of business in the U.S. and all the income listed on the form is effectively connected with the conduct of a trade or business within the U. S.

- The type of income must be identified on Line 11 of the form to qualify for exemption. If it is not listed we are required to obtain from the entity a different type of W8 form.
- A U.S. tax identification number is required for exemption from tax withholding.

**PLEASE MAIL THE APPLICABLE ORIGINAL FORMS WITH SIGNATURE & DATE TO:**

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**NOTICE OF INTENT TO WITHHOLD  
U.S. Individuals and Entities**

As an entity or independent Contractor doing business with the \_\_\_\_\_ school district you must complete applicable state and federal tax forms that are required to determine your federal and state withholding and reporting status. Please complete and return the attached forms. Failure to receive the completed forms can delay or cause adjustments to your payments.

**Federal Form W-9-** Under Federal Regulation §1604-1, vendors are required to provide us with their taxpayer identification number (TIN) to avoid backup withholding of 28%. In addition, the State of California also requires an additional 7% backup withholding on all payments subject to the IRS backup withholding requirement.

We will not be able to refund any backup withholding already deducted from the payment. Backup withholding is not a failure to pay you; it is an advance tax payment, which you can take as a credit when you file your federal and state tax returns.

**California Form 590-** All individuals and entities must complete Form 590 to determine California Residency for exemption from California withholding.

**California Form 587-** Payments made to corporations, limited liability companies and partnerships that do not have a permanent place of business in California are subject to a seven percent non-resident withholding on payments greater than \$1,500.00 for services performed in California and payments of leases, rents and royalties for property (real or personal) located in California. No withholding is required on payments for goods. (California Revenue and Taxation Code Section 18662).

Form 587 is used to allocate the amount of services performed within the state of California. Only payments sourced within California are subject to withholding. If Form 587 is not applicable or we do not receive the form with an allocation breakdown, 7% withholding will be deducted from your payment.

The Franchise Tax Board may reduce the withholding if the 7% will result in substantial over-withholding or waive the withholding if the payee has a current history of filing California returns and/or making estimated payments when due. For more information, or to request a waiver or reduced withholding rate, contact:

NONRESIDENT WITHHOLDING WAIVER REQUESTS NONRESIDENT  
WITHHOLDING SECTION MS F-265 FRANCHISE TAX BOARD  
PO BOX 651  
SACRAMENTO, CA 95812-0651  
Telephone: (916) 845-4900  
FAX: (916) 845-4831

If you have further questions, FTB Pub. 1023, Nonresident Withholding Independent Contractor Rent & Royalty Guidelines, can be obtained from the Franchise Tax Board.

Please return Form W-9 and Form 590 along with any applicable Forms 587 to:

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