



1099 Reporting Requirement

A new information reporting requirement will place an unnecessary and expensive paper work burden on small businesses

On March 23, 2010, an unprecedented expansion of Form 1099 reporting requirement was included in the passage of the *Patient Protection and Affordable Care Act (PPACA)*. This new mandate will require businesses to use Form 1099 to report to the Internal Revenue Service (IRS) all payments to corporations in excess of \$600 for goods and services.

Under past law, service recipients were only required to send 1099 forms to non-corporation service providers. For each non-corporation service provider, the service recipient was required to issue two 1099 forms—one to the IRS and one to the service provider.

However, section 9006 dramatically changes the 1099 reporting requirement—no longer exempting corporations or payments for merchandise. Specifically, beginning Jan. 1, 2012, the provision would require information reporting—on a Form 1099—for all business transactions with a vendor, whether incorporated or not, valued at more than \$600 and the reporting requirement would be for both services and property. It would apply to payments to any single vendor that cumulatively exceed \$600 in a given year. With millions of small businesses filing two forms for each vendor, it is likely that the number of 1099s filed each year by small businesses could easily exceed 100 million.

This mandate has nothing to do with health care coverage or reform, and instead was used as an unrelated “pay for” as a way to help the IRS track and collect taxes on income that now goes unreported by enlisting businesses to help create a paper trail.

As enacted, every small-business owner will face increased paperwork and outrageous administrative burdens for each additional 1099 form prepared. Increased costs are incurred for mailing additional forms and for hiring outside assistance to ensure that businesses are correctly complying with the law.

Furthermore, if a business previously has not been required to utilize the Form 1099 filing system, greater difficulty with compliance is likely to ensue. While it may seek to capture non-compliant corporations, it clearly places the burden on the wrong taxpayer—the compliant small-business.

Rep. Dan Lungren (R-Calif.) introduced legislation, the *Small Business Paperwork Mandate Elimination Act (H.R. 5141)*, which will repeal section 9006 of the PPACA that requires any business that purchases more than \$600 of goods or services from another business to submit a 1099 form to the IRS.

NSBA endorses the Rep. Lungren’s bill that will repeal the additional 1099 reporting requirement. The information reporting requirement, which is set to go into effect in 2012, is a costly and time-consuming mandate placed on a small-business owner. Businesses are already overburdened with tax paperwork and reporting requirements, and the additional requirements included in the health care bill will only increase the cost and complexity of complying with the tax code.