



New 1099 Tax Reporting Requirements An Expensive New Burden on Small Business Owners

The healthcare law includes an expensive new tax information reporting requirement, which will fall heavily on small businesses. Currently, businesses report – on a form 1099 – any service-related transactions over \$600 involving an unincorporated business (sole proprietor, partnership, and LLC). Beginning in 2012, the new healthcare law requires businesses to send Form 1099s for every business-to-business transaction of \$600 or more for both property and services – creating a tremendous new paperwork compliance burden for small business. This means that a small business owner will have to file two forms – one with the vendor and one to the IRS – for almost every business-to-business transaction. In addition, since Form 1099 reporting requires the inclusion of a Taxpayer Identification Number for the vendor they do business with, small business owners will also be forced to spend time tracking down the number for each and every vendor requiring a Form 1099.

The reporting requirement substantially increases compliance burdens on honest small businesses.

Small business already faces tremendous expense in complying with the tax code. In fact, according to an NFIB Small Business Survey at \$74 an hour, tax paperwork is the most expensive paperwork burden placed on small businesses by the federal government.

- Increased paperwork and administrative burden for every additional 1099 form prepared. Small businesses lack an in-house finance department to track this kind of reporting and that is why complying with the tax code is already 66 percent more expensive for a small business than a large business.
- Increased costs incurred for mailing any additional 1099 forms and for hiring outside help to ensure that the business complies with the law.
- The law seeks to capture non-compliant corporations, but places the burden on the wrong taxpayer (the compliant small business).

Form 1099 Reporting – Separating Fact from Fiction

Fiction: 1099 reporting is about healthcare because it is in the healthcare law.

Fact: The new requirement was added to the healthcare law in an attempt to raise \$17 billion to help cover the nearly \$1 trillion cost of the new law. Unfortunately, the burden will fall on tax compliant small businesses. Even worse, while small business owners will pay to comply with the new requirement, there is no guarantee that the government will raise the projected revenue.

- The IRS does not have the matching capabilities to handle the massive volume of paperwork resulting from this proposal.
- Many corporations file taxes on a fiscal year that is different than the calendar year in which 1099 forms are filed which could result in substantial errors in IRS attempts to accurately match information.

Fiction: Form 1099 reporting will capture lost tax revenue.

Fact: The tax gap is the amount of tax revenue the government is owed compared to how much it actually collects. Estimates place the tax gap at about \$290 billion. Unfortunately, there is no evidence that the requirement will actually reduce the tax gap.

- Current data is not available to portray an accurate picture of underreporting of corporations.
- The 2001 National Research Program data from the IRS only focused on the individual taxpayer. The data for corporations is much older.
- Data does not prove whether the business-to-business transactions are the problem or if underreporting is more prominent in payments over or under \$600.
- Without better data to craft targeted solutions to close the tax gap, we should be very careful to avoid enacting proposals that would unduly harm and burden compliant taxpayers.