



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

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. The small business community has made full repeal of the 1099 reporting provision a major priority and strongly supports the Small Business Paperwork Mandate Elimination Act (H.R. 5141/S. 3578), which would fully repeal this new provision (Sec. 9006) from the recently enacted healthcare law.

The reporting requirement substantially increases compliance burdens on honest small businesses

- Expanded 1099 reporting 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.
- 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. (SBA Advocacy Report: The Impact of Regulatory Costs on Small Firms)

1099 reporting will cost more in compliance than it will generate in revenue

- 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.
- While small business owners will pay to comply with the new requirement, there is no guarantee that the government will raise the projected revenue.
- A July 2010 report issued by The Office of the Taxpayer Advocate reiterates that “the new reporting burden, particularly as it falls on small businesses, may turn out to be disproportionate as compared with any resulting improvement in tax compliance.”

Form 1099 was added to the healthcare bill without Congressional hearings, agency advice or public input

- 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, but has nothing to do with healthcare.
- Congress did not hold any hearings, and agencies did not conduct any analysis to evaluate the impact of enacting this kind of requirement on small business.
- Now that the 1099 provision is law, as part of the regulatory process the IRS has asked affected parties to provide comments on the impact of the law by September 27, 2010 – marking the first time that input from affected parties is being sought.