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Small Biz to Congress: Deep-Six the 1099 Expansion

Small-business owners enumerate the costs that will come with more tax reporting.

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.he expansion of Form 1099 reporting requirements that lawmakers buried in the health-care reform bill has caused no shortage of anxiety among business owners and executives, many of whom already feel buried in paperwork. Following the Senate's vote last week to repeal the measure and President Obama's indirect endorsement of a repeal in his January State of the Union address, the House Committee on Small Business held a hearing this week to let executives air their concerns. Not surprisingly, the testimony universally encouraged Congress to drop the new requirements, and quickly.

Currently, a business must provide a 1099 form to the Internal Revenue Service for any services it receives from an unincorporated firm, like a partnership. Last March, the Patient Protection and Affordable Care Act broadened the requirement so that a business would have to file the form for every vendor it uses, regardless of incorporation status, both for services and goods that exceed $600 in a year. The measure, scheduled to take effect January 1, 2012, was intended to generate additional tax revenue to help fund health-care reform.

Business owners have complained that tracking all corporate purchases to determine when to file would be an overwhelming and expensive job, not to mention collecting hundreds of tax identification numbers from vendors. For example, "the simple task of tracking fuel purchases from multiple gas stations . . . is not as simple as collecting receipts," testified Mike Kegley, a Kentucky-based builder who appeared at the committee hearing on behalf of the National Association of Home Builders. Instead, "businesses must determine the taxpayer identification numbers for each gas station, as they are likely owned by different franchise owners. Many businesses will be forced to hire additional staff to comply, and few home builders are in the position to do that."

Kegley said his bookkeeper estimated that his company would likely spend at least $9,000 in the first year the new rules take effect, not including software costs, and at least $1,900 per year after that.

John "Mark" Eagleton, a restaurant franchisee in Colorado who testified on behalf of the National Restaurant Association, noted that the new rules mean he would have to file forms for the fresh lettuce he buys each day at the local grocery store, as well as his miscellaneous purchases at dollar stores, among the other 200 to 300 vendors he deals with, since those purchases typically exceed $600 in a year. The 1099 expansion "may seem like a simple edict, but it could put me out if business," says Eagleton, whose restaurant was slightly cash-flow negative last year after debt payments.

While repeal of the 1099 expansion looks like a distinct possibility, the main obstacle right now is money. "The budget has been based on this additional revenue coming into the coffers, so the argument right now is, 'If we repeal and don't bring in this additional revenue, what are we going to do to offset it?'" says James Guarino, a partner with Boston-based tax and accounting firm Moody, Famiglietti & Andronico.

Some relief has already come in the form of the IRS agreeing to exempt any credit-card transactions from the requirement. However, that's not enough, business owners say, since not all purchases can be made, or accepted, with a credit card.

Still, there's good reason to hope. Congress "may drag [the repeal] out," says Guarino, "but I sense that one way or another it's going to get passed."