

1099 Collation Calamity

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2012: You Are Warned. The 2,000-page healthcare law passed in March harms small business in many ways. But arguably, its least defensible provision is the innocuous-looking, 162-word, Sec. 9006 (“Expansion of Information Reporting Requirements”). Starting in 2012, Sec. 9006 drowns small business under an ocean of IRS Form 1099s.

Sec. 9006 is part of the healthcare law, yet it has nothing whatsoever to do with healthcare. It aims to increase federal revenues, yet there’s little evidence that it will. It vastly expands the flow of paperwork that businesses must file with the IRS, yet the IRS already says it cannot manage this flow. It guarantees that business will shift purchases from small vendors to big-box stores. It forces employees and employers to devote fewer hours to productive work and more hours to mind-numbing recordkeeping.

The 1099 today: Pre-2012, the 1099 is a sort of W-2 for contractors – people who do work for a business but are not employees of that business. Both the W-2 and the 1099 are tax compliance tools, informing the IRS that a business has paid someone to do some work. **Today, two limitations keep the flow of 1099s to a manageable level. First, businesses only have to send 1099s to unincorporated contractors, not to corporations. Second, 1099s only reflect the purchase of services, not goods. In 2012, Sec. 9006 erases both of these limitations, and the flood begins.**

The 1099 in 2012: Beginning in 2012, every business-to-business relationship exceeding \$600 in a given year must generate a pair of 1099s – one for the vendor and the other for the IRS. Suppose a business has 20 truck drivers, each of whom purchases gas and turns in receipts for reimbursement. Somehow, the business owner will have to take hundreds or thousands of receipts from all the drivers and collate them by gas station. (Perhaps we should call this the “1099 Collation Calamity.”) Then they’ll have to seek a taxpayer ID number or social security number from each gas station where the receipts exceed \$600. Actually, it’s even worse; if, say, two gas stations are part of the same corporate entity, the business owner will have to somehow determine that.

But wait, there’s more. If one gas station fails to provide the taxpayer ID, the business will have to send an amount equivalent to 28% of the purchases to the IRS as withholding; except that the money has already been spent, so it’s not clear where the business is supposed to come up with the 28%. Add to this the fact that the business owner will have to do the same thing for all of the hundreds of business vendors from whom he purchases – gasoline, stationery, automotive parts, computer services, utilities, coffee shops, hotels, etc.

The IRS Advocate has already indicated that the IRS cannot handle the paper flow that would result from this provision. So there are some possible partial solutions. One is to exempt credit card purchases, but this creates several new problems. First, credit card transactions carry a fee, so using this method instead of cash or checks would raise the cost of doing business. Second, if the company purchases some goods using cards and others using cash, separating these transactions will be a major headache.

Best of all, no one is actually certain whether this whole mess will actually bring in any substantial amount of government revenue. And no study has been done to determine how much compliance will cost business and whether those costs will exceed the incremental revenue raised by the federal government.

Sec. 9006 gives every business in America a good reason to stop buying goods and services from small businesses and purchase from the fewest possible vendors. Why chase down a hundred small businesses at tax time when you can simply buy all of your gas, food, stationery, hardware, computers, and so forth from one big-box retailer? One 1099 instead of hundreds.

Representative Dan Lungren has introduced [H.R. 5141](#), The Small Business Paperwork Mandate Elimination Act, to repeal Sec. 9006. Senator Mike Johanns has introduced [S. 3578](#) to do the same. The efforts of Rep. Lungren

and Sen. Johanns to stave off this disaster face strong opposition in Congress; opponents have introduced ["alternative" bills that are subterfuges that only provide political cover.](#)

Until and unless this provision is repealed, companies have no choice other than to prepare for this onslaught. Preparations will have to be in place and ready to go sometime in 2011.