

Nov. 07, 2010  
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## Expect paper shuffling with law

### 1099 reporting rules for 2012 foreseen to increase bookkeeping

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LAS VEGAS REVIEW-JOURNAL

If you like paperwork, you're in luck.

A federal regulation set to take effect in January 2012 will launch a flurry of tax documents in an effort to ferret out unreported business income.

The pending rule shouldn't impose huge burdens on big businesses, local observers say, but smaller operations could face more administrative costs, at least temporarily. More importantly, some experts say, the law isn't even likely to deliver on its purpose.

"We lobbied against this just because it's a pain for our clients," said Jeff Breeden, a partner in local accounting firm Stewart, Archibald & Barney. "If you have to focus on how you capture accounting information in a better way, it's probably not a horrific thing. But it's a ridiculous thing given the goal. I don't think expanding (1099 reporting rules) to corporations is going to do a thing for the tax gap."

What it will do, according to libertarian think-tank Cato Institute, is generate hundreds of millions, and possibly more than a billion, new 1099 forms.

To understand how the law will change accounting procedures, consider existing bookkeeping requirements. Under current law, businesses must send 1099 forms to any independent contractor from whom they purchase \$600 in services in a year -- the magazine who buys an article from a freelance writer, for example, or the developer who retains a law firm.

The new law will expand 1099 reporting to tangible goods, and it will demand that businesses submit the forms to corporations with whom they do business. That means landscaping companies that buy more than \$600 a year in gasoline for their trucks will have to file 1099s on those purchases. If you throw \$600 worth of pizza parties for your workers annually, you'll have to send forms in for the restaurant. If you buy office supplies from Costco, you'll need to send the big-box chain 1099s detailing the purchases. Businesses will need to track and report purchases of flowers, gift baskets, office equipment, inventory and any other goods totaling at least \$600 a year.

Congress included the regulations in the federal health-insurance reform bill to raise nearly \$20 billion to help pay for coverage subsidies and other costs in the law.

But Breeden said the rule isn't likely to raise much money at all, because it ups reporting on purchases from corporations, which already largely follow the law on declaring income from sales.

"I don't think corporations are under-reporting income that's going to get caught on 1099s. The tax gap is coming from the guy with the hotdog stand, where people walk by and give him a \$5 bill," he said. "I think this was thrown in because you could put numbers to it and say it will raise revenue. You might have more in (noncompliance) fines, but you're not going to discover a lot of unreported business income."

Local companies say it's tough to tell just how onerous the law will be.

"We do have thousands of vendors who fall in this category, and we have already begun gathering the information we need to process 1099s," said Yvette Monet, a spokeswoman for MGM Resorts International. "There will be some cost, and some effort to obtain it all, yet it's too early to determine the entire cost and the additional staffing needs."

Complying with the law isn't likely to significantly boost record-keeping efforts among big companies with accounting staffs of, say, five or more people, Breeden said. Most such businesses already have detailed 1099 reporting procedures in place, so the difference between printing out 1,000 forms and 10,000 forms "is a matter of additional paper and printer ink," he said. The new rule shouldn't force big businesses to hire more staffers or expand hours to make the transition.

For some smaller companies, though, the burden could be higher. Small businesses are lucky if they have one full-timer handling accounting, Breeden said. Getting up to speed on complying with the rule change could require hiring at least some temporary help to collect tax-identification numbers and other necessary information.

Wendy Gelbart co-owns and handles accounting for Yellow Bucket Janitorial Service, a Las Vegas business with two employees. Despite her company's tiny size, Gelbart doesn't foresee major reporting problems, mostly because Yellow Bucket is so small that it has just a handful of suppliers.

"Really, it's not going to be that much of a bother for us," Gelbart said. "What disappoints me most is that it was in the health-care bill. I really don't see where the two go hand-in-hand."

Some federal lawmakers seem to agree the reporting requirement doesn't belong in the reform law. Sen. Mike Johanns, R-Neb., proposed an amendment in September to scrub the reporting rules, but the idea went nowhere after Obama administration opposed it because its passage could have encouraged additional attempts to strip out reform-bill provisions. Another September bill, this one from Sen. Bill Nelson, D-Fla., suggested raising the \$600 reporting floor to \$5,000 and exempting companies with fewer than 25 employees. It also failed to pass Congress.

But a 1099 change may be coming after all.

President Barack Obama said Thursday that the new reporting rule looks to be too "burdensome" and "counterproductive" for small businesses. He called for a second look at the reporting requirement.

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