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Written by Press Room

Business owners across the nation will be encountering a mammoth new bookkeeping requirement – the reporting of every transaction of more than \$600 to the Internal Revenue Service (IRS).

The National Association for the Self-employed reports that the new requirement – thanks to the new health care legislation – will increase paper work over a thousand percent.

“A few wording changes to the tax code’s section 6041 regarding 1099 reporting were slipped into the 2000-page health legislation,” explained Chris Edwards of the Cato Institute, “The changes will force millions of businesses to issue hundreds of millions, perhaps billions, of additional IRS Form 1099s every year. It appears to be a costly, anti-business nightmare.”

The new law, set to go into effect in 2012, will require the reporting on IRS Form 1099 of every payment made via check or credit card to vendors for services, inventory or property over \$600 annually. A new survey by NASE found that the self-employed and micro-businesses (those with fewer than 10 employees) are overwhelmingly expecting this new regulatory burden to greatly or somewhat increase the amount they spend on tax preparation.

The Form 1099 reporting system has historically been utilized for payments made to independent contractors. According to NASE’s survey, micro-businesses reportedly received an average of four Form 1099s from clients or customers and issued an average of two Form 1099s to contractors in the most recent tax year. Under the new expanded regulation, small-business owners have estimated that they will have to issue roughly 27 Form 1099s, mostly to large corporations. This is a 1250% increase in the amount of paperwork that will be required of small-business owners come 2012.

Basically, businesses will have to issue 1099s whenever they do more than \$600 of business with another entity in a year. Writes Edwards, “For the \$14 trillion U.S. economy, that’s a hell of a lot of 1099s. When a business buys a \$1,000 used car, it will have to gather information on the seller and mail 1099s to the seller and the IRS. When a small shop owner pays her rent, she will have to send a 1099 to the landlord and IRS. Recipients of the vast flood of these forms will have to match them with existing accounting records. There will be huge numbers of errors and mismatches, which will probably generate many costly battles with the IRS.”

“To the mom and pop shop, time is money, and this new regulation is going to require plenty of both,” remarked Kristie Arslan, NASE executive director (legislative offices). “The bottom line is that the Form 1099 expanded reporting requirement affects companies small and large, increasing the number of forms issued and received many times over.”

As part of the new expanded Form 1099 reporting requirement, businesses will be required to obtain accurate Taxpayer Identification Numbers (TINs) from all qualifying vendors. Should the business owner be unable to do so, they would be required to withhold a portion of that vendor payment and send it to the IRS. With over 40 percent of survey respondents still preparing their taxes on their own, this added administrative workload will significantly increase the time business owners spend on paperwork and/or force them to hire an accountant, adding to the cost of doing business in this difficult economic time, according to NASE.

“There appears to have been little discussion before this damaging mandate was slipped into the health bill and rammed through Congress” according to Edwards, who wonders what purpose the information will serve.

“Private transactions are the core of a market economy, and the source of America’s growth and prosperity. Now the federal government is imposing a vast new web of red tape on perhaps billions of these growth-generating private exchanges,” lamented Edwards.

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