

LewRockwell.com

[Home](#) | [Blog](#) | [Subscribe](#) | [Podcasts](#) | [Donate](#)



The 1099 Tsunami

by [Gary North](#)

by Gary North

Recently by Gary North: [Sell in May and Run Away . . . Fast](#)



Earlier this year, some staffer in some office on Capitol Hill dutifully inserted a provision into the health insurance bill that will force businesses to file 1099 forms on every transaction with another business for over \$600. Buy a \$601 used car for your business? You must file a 1099. The Cato Institute [describes this law](#).



Basically, businesses will have to issue 1099s whenever they do more than \$600 of business with another entity in a year. 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. Tax CPA Chris Hesse of LeMaster Daniels tells me:

Under the health legislation, the IRS could be receiving billions of

more documents. Under current law, businesses send Forms 1099 for payments of rent, interest, dividends, and non-employee services when such payments are to entities other than corporations. Under the new law, businesses will be required to send a 1099 to other businesses for virtually all purchases. And for the first time, 1099s are to be sent to corporations. This is a huge new imposition on American business, costing the private economy much more than any additional tax that the IRS might collect as a result.

There appears to have been little discussion before this damaging mandate was slipped into the health bill and rammed through Congress, but a few business groups did raise concerns. Here's what the Air Conditioner Contractors of America said:

The House bill would extend the Form 1099 filing requirement to ALL vendors (including corporate) to which they pay more than \$600 annually for services or property. Consider all the payments a small business makes in the course of business, paying for things such as computers, software, office supplies, and fuel to services, including janitorial services, coffee services, and package delivery services. In order to file all these 1099s, you'll need to collect the necessary information from all your service providers. In order to comply with the law, you would have to get a Taxpayer Information Number or TIN from the business. If the vendor does not supply you with a TIN, you are obligated to withhold on your payments.

The IRS will be buried in billions of new forms. I'm an older guy. I think back to Carl Sagan's memorable words in the 1980 PBS series, *Cosmos*: "billions and billions." These forms will have to be scanned into the system. If businessmen want to protest this law in a legal but effective way, they will have their tax preparers write in the numbers by hand. Then IRS will have to type in the data on each form by hand. Billions and billions!

ARCHAIC COMPUTERS

The IRS computers in Martinsburg, West Virginia are old. How old? The system became operational in 1962, three years after Robert Byrd (D-WV) was elected to the Senate. That is to say, it is really old! For over a decade, the IRS has been trying to implement a new system with the acronym, CADE. It is not anywhere near fully operational. This report appeared in *Federal Computer Week* ([Jan. 12, 2010](#)): "Stuck in the mud: IRS spins its wheels on electronic modernization."

The Customer Account Data Engine (CADE), a part of the IRS

Business Modernization Program that is intended eventually to replace the legacy Master File processing system, processed 40 million returns in 2009, producing taxpayer refunds from one to eight days faster than the older system. CADE originally was to be completed by 2012, but increasing complexities have extended that date. "After over 5 years and \$400 million, CADE is only processing about 15 percent of the functionality originally planned for completion by 2012," a Government Accountability Office report says. Each successive release of the system was expected to process more complex returns, but several technical challenges in the system had not been dealt with. The IRS estimated that full implementation would not be achieved until at least 2018, and possibly as late as 2028. After realizing how much remained to be done, the IRS decided to stop development of new CADE functionality and rethink its strategy for modernizing individual taxpayer accounts, the GAO report said. To handle the expected volume in electronic tax return filing for 2010, the IRS will upgrade its legacy Individual Master File system to handle returns not being processed by CADE more quickly.

In short, the IRS has been unable to modernize its system after a decade. It will take another decade. It may take two. Now some staffer has created a 1099 tsunami for the IRS, which will hit in 2013.

GIVE THEM WHAT THEY ASK FOR: PAPER

Business owners and managers will be outraged. But what if word spreads? "No electronic filing!" What if the tax preparers fill in all the forms by hand. It is legal. It is not efficient, but it's not all that much extra work. Pay a few dollars more per filing. At the other end, the IRS will get to process these forms by hand.



Think of what happens if businesses were to challenge every challenge by the IRS? The business's CPA simply asks in writing – I do mean writing (hand-written) – for the IRS to review the case. Point out one mistake made by the IRS. Automatically, every business should challenge every request for more tax money. No exceptions. Be polite. Just ask the IRS to review its case in terms of this new information. There are always gray areas. Put them to use. Pay a few bucks to your tax preparer. Paperwork is the essence of every bureaucracy. Let's do it by the book: with paper.

May 24, 2010

Gary North [send him mail] is the author of [Mises on Money](#). Visit <http://www.garynorth.com>. He is also the author of a free 20-volume series, [An Economic Commentary on the Bible](#).

Copyright © 2010 Gary North

The Best of Gary North

Tax Preparation

Local Certified Public Accountant Silver Spring and Vienna offices

www.cstanleycpa.com

Soc. Security Disability

Free Disability Evaluation. Get Immediate Help Now.

www.BinderAndBinder.com

1099 Software-1099 Forms

Print and File Federal Tax Forms 1099, 1098, 1042-S, 5498, W-2

www.Convey.com

Obama's Credit Card Bill

Qualify for a Credit Card Bailout? Find Out if You Can Get Help!

www.LowerMyBills.com

Ads by Google

[Back to LewRockwell.com Home Page](#)