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Possible Outcomes of New 1099 Tax Law

Beginning 2012, all businesses will have to submit Form 1099 for every purchase they make of goods or services costing above \$600. But this does not apply to purchases made by credit or debit cards. Card transactions will be covered in a separate law expected to be tabled sometime next year. This law was passed by Congress in March along with the health care reform bill and would affect about 400 million businesses including 26 million sole proprietors. This is seen by many as an attempt by Congress to recoup an estimated \$300 billion in underpaid taxes each year.

Clearly, there will be a humongous amount of paperwork for both taxpayers and the IRS. For instance, the SMC Business Councils, a Pennsylvania business networking organization, surveyed its members and found that on average, a business submitted 10 Forms 1099 each year. This number is expected to swell to 200 filings per year when the new regulation is enforced.

SMC Business Councils president, Tom Henschke is a harsh critic of the law who says that exempting credit and debit card transactions would hardly make any difference overall because most businesses do not make many credit or debit card purchases, hotel accommodation and airline tickets being the main big ticket exceptions. Henschke was quoted as saying, "Most of the small businesses out there that do small business [purchasing] don't do it by credit card. One of the reasons is the transaction cost is very high – 2% to 3%".

Henschke feels that one possible outcome of the new law is that credit card companies would benefit the most as people have an added reason now to use their services. Nolan Newman, a Seattle-based CPA specializing in small businesses tends to agree. "If I'm a small business and I use my credit card moderately, would I try to increase my volume with which I pay vendors with it? Maybe".

Another possible outcome Henschke points out is the intentional reduction of vendors each business deals with in order to cut down on the number of forms to be filled. There have been talks among the business circles of consolidating the purchases from hundreds of vendors to less than 100. This would potentially have a domino effect that might jeopardize the bottom line profits of many small businesses.

The National Taxpayer Advocate Service (NTAS) shares the same concern. Many large corporations have computer systems to track their purchases but small businesses do not. This

might discourage business, leaving the economy with only large national players and less overall competition.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.