



Barn Report

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Health Care Reform

Beginning in 2012, under a little discussed mandate of the health care reform legislation, businesses will be required to report all payments in excess of \$600 for services or merchandise to the Internal Revenue Service on a Form 1099.

“Under the new law, businesses will be required to send a 1099 to other businesses for virtually all purchases,” said **Chris Hesse, director of taxation at CPA firm LeMaster Daniels PLLC** in Washington state, as quoted by Chris Edwards in a Cato Institute blog.

“And for the first time, 1099s are to be sent to corporations,” Hesse said. “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.”

The health care bill mandate aims to collect lost revenue from companies that under-report on their tax returns. The provision is expected to raise \$17 billion over 10 years.

This 1099 reporting mandate has the distinction of being the first provision of the health care bill to be challenged in Congress. U.S. Rep. Daniel Lungren (R-CA) introduced legislation on April 26 to repeal this business reporting provision of the new health reform law, according to *The Hill's "On the Money"* blog on finance and the economy.

Lungren said that small businesses do not have the resources to comply with the reporting requirement, and called the provision a "rat tax" because it requires companies to report on the companies they do business with, *The Hill* reported.

Under current law, businesses send Forms 1099 for payments in excess of \$600 for rent, interest, dividends, and non-employee services when these payments are made to entities other than corporations. Payments made to a corporation and payments for merchandise are not required to be reported.

In order to file the required 1099, a business would have to get a Taxpayer Information Number (TIN) from the vendor. Under current tax law, one copy of the form is sent to the IRS, and another copy is sent to the person to whom the business made the payments.

The reporting requirement will affect business in two ways, according to *The Boston Globe*. First, most of a business's revenue now will be reported to the IRS by the businesses that paid it, so understating large amounts of revenue will be more difficult. Secondly, it will force businesses to identify the recipients of their business expense payments.

“There is no doubt this will be an administrative nightmare for many businesses in the first year or two,” Jamie Downey, partner at Downey & Co. said in *The Boston Globe*. “Have a large business-related meal at a restaurant, this will need to be reported on a 1099. Spend a week in a hotel in Waco, Texas; you will need to send a 1099.”

Meals and hotels claimed as business expenses must have a business purpose under RICO laws, but filing the 1099 can potentially add to the burden of expense reporting.

According to Lungren, the IRS is awaiting instruction from the U.S. Department of Health and Human Services on how to enforce the reporting requirement, according to *The Hill's* "On the Money."

"[The IRS] told us that HHS is the one that is given the requirement to interpret this entire law," Lungren said. "That was an extraordinary response as far as I was concerned...I have never known HHS in the past to be responsible for interpreting tax law."

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