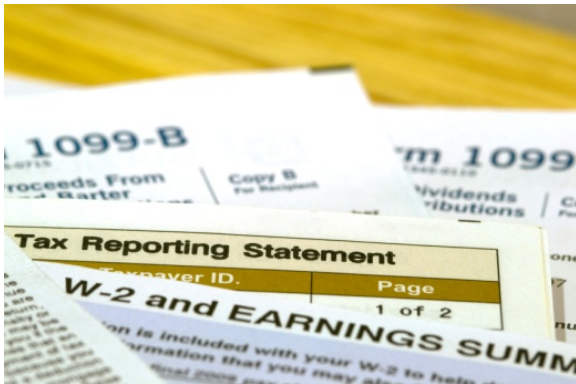


1099 Reporting Changes Coming for 2012: Start Preparing Now!

By Kim Pike

****UPDATE****

[Please refer to this article to learn about subsequent legislation signed into law in April 2011 that eliminates many of the 2012 Form 1099 filing requirements.](#)



The Health Care Reform Bill that was passed in April 2010 was one of the most significant pieces of legislation ever passed. While most of the public focus on the bill relates to health insurance and coverage, there are many additional components of the Bill, including a number of changes in tax reporting.

Section 9006 of the Health Care Reform Bill mandates that, beginning in 2012, all companies will have to issue IRS Forms 1099 to any individual or corporation from which they buy

more than \$600 in goods or services in a calendar year, which is a significant change from current law that only requires 1099s for payments to non-corporations for services.

This bill makes two major changes to how Forms 1099 are used. First, not only will businesses have to track payments for services, but also for tangible goods. This will now include virtually all payments from purchases of inventory to payments for advertising services to payment of utilities. Under the new provision, it will require businesses to track **all** payments made directly or through their employees or owners. This could even include repeated business meals at the same restaurant, payments to hotels, gas stations, office supplies, equipment or inventory for resale. Second, it requires that Forms 1099 be issued not just to individuals but also to corporations.

The new provision puts a large burden on businesses. In addition to tracking the vendor, the vendor's TIN, whether the vendor is independent or a franchisee, and the amount of payment, businesses will need to distinguish between payments made by credit card, cash or check. It will be especially burdensome for at-home businesses to track and calculate payments subject to the Form 1099 requirement, such as determining what percentage of a monthly electric bill is related to personal use and what percentage is related to the at-home business.

Attribute	Current Law	Effective 1/1/2012
Payments for goods	Exempt	Required
Payments for services to corporations	Exempt	Required
Payments for services to non-corporations (proprietors, LLCs, partnerships, etc.)	Required if over \$600 in calendar year	Required if over \$600

Legislators realize this requirement will pose challenges for businesses, but have not as of yet changed their stance significantly other than clarifying that payments to tax exempt organizations should be exempt from reporting under the new tax law. Additionally, the IRS has already issued proposed regulations to reduce the burden of the new requirements by exempting transactions made through credit and debit cards.

Businesses need to start planning now to develop and prepare their computer systems and procedures to obtain & record the necessary data for these transactions. They need to start collecting Form W-9 from all vendors, including individuals, independent contractors, and large companies. We recommend that businesses work diligently early in 2011 to get completed W-9 forms from vendors in time for the 2012 effective date of the change.

A business could face a \$50 penalty for each required 1099 it fails to file or files with incomplete or incorrect information. The penalty could increase to \$100 each for intentional disregard of the requirement, so we recommend that businesses prepare now. While the requirement may seem overly burdensome, we do not expect to see complete repeal of the new 1099 requirements and computerized accounting systems and electronic filing capabilities will simplify the process significantly in the coming years.

