

June 1, 2011

Congress Repeals Expansion of Form 1099 Reporting



On April 14, President Obama signed the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011. The act repeals expansion of Form 1099 reporting under 2010's Patient Protection and Affordable Care Act (PPACA) and Small Business Jobs Act (SBJA). This short article explains why the expanded reporting requirements caused uproar among potentially affected taxpayers and triggered widespread bipartisan support for repeal in Congress.

The repealed requirements

Generally, individuals, businesses and other organizations must fulfill certain information reporting requirements. The purpose is to help taxpayers prepare their income tax returns and the IRS to assess the accuracy and completeness of filed returns.

Issuing a Form 1099 is one type of information reporting. The general requirement is that payments totaling \$600 or more in a year to a single payee in the course of the payor's trade or business must be reported on the form and submitted to the payee and the IRS. However, there are some major exceptions, including payments to most corporations, as well as payments for merchandise and similar items.

The PPACA included a provision that broadly expanded the mandatory filing of Form 1099 beginning with payments made after December 31, 2011. The provision generally would have required businesses to report any payments to vendors that exceeded \$600 in a calendar year.

The SBJA introduced another expansion of Form 1099 reporting that took effect for payments made after December 31, 2010. This expansion would have affected taxpayers who receive rental income from a "passive" real estate investment, such as a vacation home. Previously, only taxpayers in the trade or business of rental properties were required to file Form 1099, but, under the new law, the IRS considered taxpayers who own one or more rental properties to be a "business" for Form 1099 purposes.

These expanded requirements likely would have created significant burdens for businesses and many property owners by dramatically increasing the number of necessary filings. In addition, affected businesses and property owners would have been responsible for obtaining taxpayer identification numbers from every payee that required a Form 1099. If a business was unable to obtain this information, it would have been required to withhold federal income taxes from payments to that payee and forward them to the government.

Filing burdens eased, but questions may remain

The repeal of the expanded Form 1099 reporting requirements means that businesses and property owners need not worry about drowning in paperwork or risking IRS penalties for failing to file a newly required Form 1099.

###

We hope this information is helpful. If you would like more details, please contact a Kerkering Barberio professional tax advisor at 941-365-4617.