USA TODAY

Small businesses, charities face more reporting rules

Updated 9h 48m ago

By Sandra Block, USA TODAY

A little-known provision in the health care reform law could significantly increase tax recordkeeping requirements and costs for nearly 40 million self-employed workers, small businesses and charities, the IRS' national taxpayer advocate said Wednesday.

Starting in 2012, self-employed workers, small businesses, charities and government agencies will be required to issue Form 1099s to every vendor from which they purchase more than $600 in goods during the year.

For example, a self-employed consultant who buys a $700 computer from an office supply store would be required to send a Form 1099 to the store and the IRS.

Currently, businesses are required to provide Form 1099s for services, such as payments to independent contractors, but not for goods.

IRS: Lacks clout to enforce mandatory health insurance

The provision is designed to provide the IRS with more information about income and deductions reported by small businesses. Underreported income from small businesses accounts for a significant portion of the $300 billion "tax gap," according to the IRS. The tax gap is the difference between the amount owed the government and the amount taxpayers actually pay.

The Congressional Budget Office estimates that the new reporting requirement will raise $17 billion in tax revenue over 10 years, which would be used to offset some of the costs of health care reform.

But in an interview, IRS taxpayer advocate Nina Olson said the requirement could force small-business owners and charities to purchase new software and hire additional accounting services.

Businesses that make qualified purchases from at least 250 vendors during a year will be required to file their 1099s electronically, generating an additional expense, she said.

"I'm not sure that the information that we get from this will be so valuable that the burden it puts on taxpayers is justified," she said.

IRS spokesman Terry Lemons said the IRS has proposed exempting some small-business purchases made with credit or debit cards from the new reporting requirement.

"We're looking at ways to try to minimize the burden on businesses as much as possible," he said.

Under a law enacted in 2008, starting in 2011, financial institutions and payment processors must report businesses' credit and debit card payments to the IRS. That means the IRS will already have a record of those transactions, Lemons said.