

New Information Reporting Requirements

Dear Client:

Businesses of all sizes are preparing for an avalanche of information reporting after 2011. A ten-fold increase in the number of information returns required to be filed has been predicted. Businesses should begin now to take steps to prepare for this eventuality. To help pay for health care reform, lawmakers tacked on expanded information reporting to the Patient Protection and Affordable Care Act (PPACA). The health care reform law generally requires all businesses, charities and state and local governments to file an information return for all payments aggregating \$600 or more in a calendar year to a single provider of goods or services. The PPACA also repeals the longstanding reporting exception for payments to a corporation. Other recent legislation from Washington also added other information reporting rules. The magnitude of the combined force of all the new reporting requirements has opponents working feverishly to persuade Congress to either repeal these new rules or scale them back. This letter provides you with some general information on the new reporting requirements and how to start planning now.

Pre-PPACA law. Pre-PPACA law generally requires businesses to file an information return with the IRS reporting payments to non-corporate service providers that exceed \$600 in a given year. Payments to providers of goods have been excluded from reporting. Payments to a corporation for goods or services have been excluded from reporting with some limited exceptions.

Aside from the major changes in information reporting that will be required under the PPACA starting for payments made after 2011, Congress added several reporting requirements in other recent legislation that are effective even earlier. The Housing Tax Assistance Act of 2008 enacted Code Sec. 6050W, which generally requires reporting of payments made in settlement of payment card and third party network transactions after 2010. The Small Business Jobs Act of 2010 imposes information reporting on qualified rental expense payments of \$600 or more made after 2010.

Sea change ahead. Effective for purchases made after December 31, 2011, the PPACA requires all businesses purchasing \$600 or more in goods or services from another entity (including corporations but not tax-exempt corporations), to provide the vendor and the IRS with an information return. Presumably, Form 1099-MISC will be used for purposes of the new reporting rule, or the IRS will develop a new form. We will keep you posted on developments.

Example. In February 2012, your business buys computers, printers, and fax machines from an office supply company, doing business as a corporation, for \$4,000. Your business also spends \$1,000 at a local caterer, doing business as a partnership, for office breakfasts and lunches throughout the year. Additionally, the company spends \$600 for business travel on Amtrak. Your business must provide each of these vendors with a Form 1099 for 2012, as well as the IRS.

Day-to-day transactions. Here are some more examples of purchases after 2011 that appear to fall under the PPACA's reporting requirements:

- You make small, incremental purchases from the same vendor; for example, your business purchases more than \$600 of office supplies, such as staples, toner, pens, paper, and calendars from the same vendor.
- You pay more than \$600 throughout the year in mail and shipping costs to the same vendor; however each individual charge costs no more than \$10 or \$12.
- You purchase floral arrangements for the office throughout the year, although each purchase may be no more than \$40 to \$70, your cumulative purchases are more than \$600;
- You purchase an \$800 computer for your new employee;

- You hold a summer picnic for your employees and purchase more than \$600 in food from a local grocery store;
- Every Friday you buy breakfast pastries from the local bakery for your employees, and even though each purchase is no more than \$40, you spend more than \$600 in the year.

Backup withholding. The PPACA requires sellers to provide, and purchasers to collect, Taxpayer Identification Numbers (TINs). If a seller fails to furnish a correct TIN, the rules as they are now written will require you to impose backup withholding at the rate of 28 percent of the purchase price.

Moreover, if your business fails to issue an accurately completed Form 1099 to a vendor, the IRS can assess a penalty.

Preparing now. There are some proactive steps your business can take now to prepare for the new reporting requirement and its heavy administrative and paperwork burden. The way you collect and manage vendor information will be more important than ever. Basic information you will need to track includes every vendor's name and TIN, the amounts spent at each vendor and the total annual amount spent at each vendor. Focusing on some of these details can also provide additional substantiation for deductions and credits that your business may be taking anyway, so an investment in these recordkeeping requirements can pay dividends elsewhere.

You should also begin requesting that each of your vendors, particularly your regular vendors, complete IRS Form W-9 for your records. Form W-9 will provide you with the vendor's legal name, address, and TIN.

Pending legislation. Opponents of the expanded information requirement are hoping that Congress will repeal it before 2012. Outright repeal is a long-shot. As written now, the PPACA reporting requirement is estimated to raise \$17 billion over 10 years. Congress will need to find another source of revenue if it repeals the reporting requirement. More likely, Congress will modify the requirement.

Senate Democrats have introduced legislation to raise the reporting threshold from \$600 to \$5,000 and exclude some routine payments, such as office supplies, from reporting. All purchases made with a credit card would also be exempt from the reporting requirement. Additionally, small businesses employing not more than 25 employees would be completely exempt from the reporting requirement.

Our office will keep you posted on developments. Please let us know if you have any questions in the meantime on how your business should start preparing.

Sincerely,

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