



**The Computing Technology Industry Association**

**Before the**

**House Small Business Committee**

**Form 1099 Reporting**

**February 9, 2011**

Dear Chairman Graves, Ranking Member Velázquez, and Members of the Committee:

We want to thank Chairman Graves and Members of the Committee for holding this important hearing to highlight the new Form 1099 reporting requirement, which should be repealed. We also want to thank this Committee for its vigilant work in responding to issues that are important to small businesses. We believe that your efforts to maintain public attention – and importantly, the attention of Congress – on the needs of small businesses are vital to our economic vitality.

**About CompTIA.** The Computing Technology Industry Association (CompTIA) is a non-profit trade association representing the information technology (IT) industry. CompTIA represents over 2500 IT companies, the majority of which are small businesses. Our members are at the forefront of innovation and provide a critical backbone that supports broader commerce and job creation. These members include major computer hardware manufacturers, software publishers, and service providers; the distribution partners that bring these products and services to market; and small IT services businesses called value added resellers (VARs), who are the final service providers in the channel of IT commerce.

CompTIA works with both our members and other stakeholders to develop and advocate public policies that advance the interests of the IT industry and our

member companies. CompTIA is the leading global provider of vendor neutral certifications, with and for the IT industry, such as: CompTIA A+, CompTIA Security+ and CompTIA Network+.

These certifications enhance American competitiveness by:

- Helping American workers secure jobs and progress in their IT careers;
  - Helping dislocated workers develop new skills for entry into the IT sector;
- and
- Serving as the skills standards by which educational institutions train to meet the industry driven qualifications of the IT technical workforce.

### **Current Form 1099 Reporting.**

Under current law, businesses are required to provide a Form 1099-MISC to any individual or unincorporated entity to whom that business paid \$600 or more for services during a calendar tax year; payments for services to corporations are exempted. Clearly, this reporting requirement was intended to bring independent contractors into compliance in reporting income from services. Of course the reasoning was that if payments were reported to the IRS, the recipient would properly report those same payments as income. So under the requirement currently in effect, the IRS requires a Form 1099-MISC to be filed only for payments made to *individuals* (or unincorporated entities) for *services*.

## **The New Requirement.**

The new Form 1099 reporting requirement was enacted under §9006 of the Patient Protection and Affordable Care Act, also known as healthcare reform. Under this provision, beginning in 2012, any business that pays a single vendor for goods or services valued at \$600 or more during a calendar year must provide that vendor with a Form 1099-MISC, and this Form 1099-MISC must also be provided to the IRS. Of course, this sounds simple, but what does this really mean? If a business hires an accounting firm to prepare its tax returns, that business must provide the accounting firm with a Form 1099-MISC, which must also be provided to the IRS. If that same business buys a computer for \$600 or more from Costco, the business must provide Costco with a Form 1099-MISC. Whether a business pays for goods or services – either to a corporation or individual, payments tallying \$600 or more during a calendar year must be reported both to the IRS and the recipient on a Form 1099-MISC.

## **CompTIA Position.**

CompTIA believes this provision has a disproportionately negative effect on small businesses and should be repealed forthwith. Some would assert that this provision was enacted in an effort to close the tax gap, however, it is not clear that this provision would further that goal.

As opposed to addressing the tax gap, the apparent rationale for including this provision in the health care reform bill was to raise revenue. Clearly, the authors of the health care reform bill were searching for revenues to offset the cost of the legislation, and this unlikely reporting requirement was hastily added. This was all done without proper consultation or discussion with the business community. Although the Joint Committee on Taxation estimated this new 1099 reporting requirement would bring in \$17.1 billion over 10 years, this figure is questionable. What is not debatable is that this provision would burden small businesses with additional costs: Recordkeeping, compliance and accounting fees are a few of the general categories.

For example, one of CompTIA's members, Tom Boozeman of PCSOS in Arlington, TX, determined that based on his last three tax years, his company would be required to file 2.3 times the number of 1099s under the new law as compared to the current law. Mr. Boozeman estimates the additional compliance cost would be about \$5,000. While this might not be an exorbitant financial hardship to the largest

U.S. companies, it is yet another cost that inhibits Mr. Boozeman's company, PCSOS, and other small businesses from using that money to create new jobs. This additional compliance cost will hinder Tom and others from growing their businesses.

A number of our other members provided input on how this new 1099 requirement would affect their businesses:

- One California member has 25 employees and provides IT management, monitoring and security. For the 2009 tax year, this business filed 25 Forms 1099; under the new requirement, it estimates that it would have file about 300 forms, an increase of 275 forms for an 1100% increase. This member also noted that it would also need to make an initial capital investment to upgrade and install accounting software.
- Another member company that provides IT Training in numerous states with 150 employees filed 189 Forms 1099 for the 2009 tax year; under the new requirement it estimate that it would have been required to have filed about 550, an increase of 191%. The business also notes the increased burden after filing, which results from reconciling these forms with the IRS.

- Another member in New Hampshire with 5 employees did not file any Forms 1099 during 2009, but estimates it would have been required to file about 24 under the new requirements.

In its 2010 publication, "General Instructions for Certain Information Returns," the IRS notes that the Paperwork Reduction Act estimated time required to prepare a Form 1099-MISC is 16 minutes. Using this estimate, it would take 73.33 hours for our first member to file the additional 275 forms. At a cost of \$100 an hour for an external accountant, the added cost would be \$7,333; at a cost of \$200 per hour, the additional cost would be \$14,666. However, assuming this can be done in house, even at a lower rate of \$50, the additional cost to this business would be \$3,666. So you can clearly see, the cost of filing a few extra forms is unnecessarily burdensome to a small business.

In fact, the additional compliance costs that will be imposed on businesses will likely exceed the \$17.1 billion in revenue that the Joint Committee on Taxation estimated this provision would raise. This new burdensome requirement is just is bad policy and harmful to small business.

**We have seen this before.**

Inventing ways to find new revenue sources is becoming commonplace in DC. In the last Congress, a provision requiring a 3% withholding on most all government contract awards became law under a similar scenario. Like the current Form 1099 reporting provision, the 3% withholding tax was not disclosed or discussed with the business community prior to enactment. The effective date for that provision (on which we testified before the House Small Business Committee) has already been delayed a number of times but has not been repealed.

### **Repeal Legislation Supported.**

CompTIA fully supports passage of the *Small Business Paperwork Elimination Act* (H.R. 4 in the House and S. 18 in the Senate). As drafted, this legislation simply repeals Section 9006 of the Patient Protection and Affordable Care Act. This is the most logical and expedient approach. This provision should never have been enacted.

### **Conclusion.**



U.S. small businesses do not need new filing burdens and costs, especially in a time when the economy suffers and jobs are scarce. Even though this new reporting provision does not constitute a new business “tax,” its effects are the same. Increased IRS reporting results in additional compliance costs, and this has a disproportionate effect on small businesses. Small businesses should not be forced to bear this burden. These requirements are too extreme and the associated costs are too high. CompTIA urges immediate, bipartisan action to repeal this provision.