



New 1099 rules- now obsolete

By Kathleen Crawford, EA

Congress has tasked the IRS with closing the tax gap. In last month's article, tax preparer registration was discussed. The IRS has also tightened the requirements for 1099 reporting. The changes are not scheduled to take effect until January 1, 2012, but some ripples are being felt right now. Some in the new congress have mentioned changing the law, so some requirements may change, but for now the law should be followed.

Starting in January 2012, all business to business transactions over \$600 in the calendar year, for services and goods must be reported on a 1099. This includes corporations. Those few words will add millions of hours of work and millions of dollars of expense to American companies. The current law requires that services and certain types of payments, like rent, be reported, if over \$600. Corporations are mostly exempt under current law and goods are not considered.

The new law will mean that the trucker who buys gas at the same truck-stop will have to issue a 1099 if he buys over \$600 in fuel. The flower shop owner will need to issue a 1099 to the floral wholesaler if she spends more than \$600 in the year. The medical office will have to issue a 1099 to Office Depot if the total spent during the year is over \$600.

The IRS is trying to find underreported income and overstated expenses. While that is worthy goal, January of 2013 will see millions of 1099 forms changing hands. The burden on small businesses will be greatest. Our small tax office will need to issue about twenty 1099 forms instead of the two that are required in January of 2011. However, there is one way to minimize the effect. The law states that items purchased with a credit card will be tracked by the card company instead of the individual business. So if the florist, trucker or medical office uses a credit card for the purchases, the credit card company will deal with reporting.

A business has 2011 to get their act together. A business needs to create a W-9 information form to give to customers who need an ID number. A business needs to get ID numbers from each of their vendors for 1099 reporting. Most important is to get a business credit card to use for purchases to avoid having to issue 1099's to typical businesses. Many customers will be asking vendors to start accepting credit cards so that 1099's are not required.

The new reporting will be a burden to businesses, but will inundate the IRS with forms. Tax preparers see no relaxing of the rules, but a requirement for electronic transmittal in the next year after the new law takes effect.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

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