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Senator Snowe Applauds Repeal of Onerous 1099 Reporting Requirement

Repeal of provision will free small businesses from burdensome regulation

WASHINGTON, D.C. – Senator Olympia J. Snowe (R-Maine) today voted to repeal the Form 1099 reporting requirements imposed on U.S. businesses by the new health care law. The repeal also revokes the 1099 reporting requirement for rental property, enacted by last year’s Small Business Jobs Act. An ardent supporter of repealing the onerous 1099 provisions, Senator Snowe previously offered an amendment to repeal the 1099 requirement imposed on rental property during a Senate Finance Committee mark-up on February 8, 2011. Video of the Senator’s floor speech can be accessed via satellite feed from 3:45pm – 4:00 pm eastern. Satellite coordinates and text of Senator Snowe’s prepared remarks are below.

“If we don’t repeal this onerous reporting requirement, every business in America will face the real prospect of being buried by needless paperwork,” said Senator Snowe, the Ranking Member on the Senate Small Business and Entrepreneurship Committee. “At a time when America’s small businesses are struggling to survive, Washington should not heap additional, onerous, expensive and needless reporting requirements on our job creators.”

The 1099 reporting requirement will affect business transactions at firms large and small, where they will be required to file reports to the IRS for all purchases exceeding \$600 per vendor. That could include everything from supply or equipment purchases to services relating to cell phone coverage and wireless Internet access. Moreover, the inclusion of rental properties is especially concerning for parts of the country where tourism is an economic driver, which is particularly true in the state of Maine. Rental property owners have been subject to this new requirement since January 1 of this year and probably were not even aware of the tax bite that could await them if repeal were not accomplished.

“Ultimately, this requirement will cost more to implement than the government would collect in revenue, creating additional economic disincentives at a time when we must do whatever we can at the federal level to encourage growth and development,” said Senator Snowe, “We cannot afford to tinker or amend this provision. We must repeal it.”

BACKGROUND: The Patient Protection and Affordable Care Act (PPACA) PL 111-148, signed into law on March 23, 2010, requires Form 1099 filings for all business to business purchases of goods and services over \$600. The Small Business Jobs Act (SBJA) (PL 111-240), which the President signed into law on September 27, 2010, expanded this mandate on 1099 filing to include rental real estate. Senator Snowe supported the Stabenow Amendment to the FAA Authorization

Act (SA 9, Senate roll call vote 8) that repealed the initial 1099 mandate, which passed the Senate by a vote of 81-17. However, while the Stabenow Amendment repealed the 1099 mandate that would take effect January 1, 2012, the rental real estate mandate included in the Small Business Jobs Act already became effective on January 1, 2011. Senator Snowe offered an amendment at a Finance Committee mark-up to repeal the rental property mandate and supported a similar amendment sponsored by Senator Johanns during recent Senate floor debate on a small business bill.

Satellite Coordinates:

AMC 1
Transponder 23 Horizontal
Downlink 4160
Audio – C-band analog

Prepared Remarks:

Mr. President, I rise today in support of H.R. 4 to repeal an onerous mandate that would require millions of businesses to send billions of new information reporting forms to the IRS and to other businesses. I want to commend Senator Johanns for his initial recognition of this unwelcome burden and his tireless efforts to repeal it.

I am very proud to have helped lead the charge for repeal of the rental property requirement because that piece of this problem is already in effect. Rental property owners, most of them unsuspecting, are already subject to the burden of reporting to the IRS any business expenditures for goods or services that exceed \$600 per vendor or supplier. Further, if this legislation is not adopted here in the Senate, every business in America, starting in 2012, would have to face this same burden of dealing with massive information reporting for purchases of supplies and equipment and also services ranging from cell phone coverage to window washing to utilities. This would impose enormous strain on America's small businesses and put further pressure on the already-stressed job market as employers deal with this new cost.

This new mandate on businesses was imposed in the health reform law, yet it has absolutely nothing to do with health insurance reform. Rental real estate was added to this paperwork morass as part of the Small Business Jobs Act at a time when the 1099 reporting quagmire was already known, yet the Majority forged ahead regardless and inexplicably expanded rather than fix this problem. For those parts of the country that have tourism as an economic foundation, rental real estate is a major factor and for Maine, for which the state motto is "Vacationland", this is a major problem.

I introduced an amendment to repeal the rental property requirement at a mark-up held by the Senate Finance Committee on February 8th, where I also raised an analogous issue, the 3 percent withholding problem. Under both the 1099 mandate and the 3 percent withholding problem, the government and taxpayers would spend far more in compliance costs than would ever be collected in actual tax revenue. I look forward to legislation in the future that will undo the 3 percent withholding issue, but I am very pleased to take at least one big step towards helping America's small businesses by supporting H.R. 4 today.

Most Americans recognize Forms 1099 as the statements they get from a financial institution when they earn interest on savings or from their mortgage lender for the deductible interest the borrower pays to a bank or credit union for their home mortgage. The purpose of these 1099s is to accurately report income or deductions for a particular tax year so that income is appropriately taxed that year. But this new system of 1099s does not have anything to do with a direct tax liability in a given year – instead, this reporting regime will allow the IRS to track business purchases that exceed \$600. The intent of this 1099 provision may have been to track the cash flow of businesses that operate in a cash economy in order to root out those that do not pay taxes. Ensuring that tax cheats pay their taxes is a commendable and necessary function of government. But instead, it has become clear that this provision could have the opposite effect and simply further expand the cash economy.

According to an NFIB Small Business Survey, at \$74 an hour, tax paperwork is the most expensive paperwork burden placed on small businesses by the federal government. The Small Business Administration has found that the cost of tax compliance is already 67 percent higher in small firms than in large firms. Because this new 1099 reporting burden would be so ubiquitous for firms attempting to be compliant – by requiring new processes of making business purchases and tracking of business purchases – this compliance cost statistic is likely to be woefully outdated and more onerous.

Separate from the burden of compliance, I fear the tedious and pervasive nature of this mandate, for it will surely change business purchasing decisions and disadvantage small businesses. No wonder a broad coalition of businesses has come together to form the Coalition for Fairness in Tax Compliance. This group includes dozens and dozens of business organizations including Washington mainstays such as the National Federation of Independent Business, the National Association of Manufacturers, the Associated Builders and Contractors, the National Restaurant Association, and the US Chamber of Commerce, to groups as varied as the Electronic Security Association, the Independent Community Bankers of America and the American Road & Transportation Builders Association.

Finally, Mr. President, I want to turn to an aspect of this issue that has not been discussed widely. The process of tracking business-to-business purchases, aggregating information on purchase prices and then reporting this information to the IRS on those purchases would largely put in place the infrastructure for a Value Added Tax – or VAT – tax system. Imposing a system whereby virtually every business-to-business sale of goods or services is aggregated and reported to the IRS certainly puts in place the entire infrastructure of a VAT. By 2014, when the health benefit subsidies of the Obamacare health law become effective, all of the machinery necessary for a VAT would be functioning and the machine would simply have to be turned on to start generating the money necessary to pay for these benefits.

The House of Representatives recognized the need to repeal the 1099 requirements and did just that, when it passed H.R. 4 on March 3rd by an impressive bipartisan vote of 314-112. I hope we can show similar support in the Senate.

Mr. President, we cannot tinker with this 1099 provision. We cannot amend this provision. We cannot leave a vestige of it to sprout in the future. We must tear it out by its roots. We must repeal it. Completely. Now. I urge my colleagues to support this bill.

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