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**TUCKER ELLIS & WEST LLP**  
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**CLIENT ALERT**

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**SMALL CHANGE PORTENDS BIG BUSINESS HEADACHE**

A seemingly insignificant provision tucked near the end of the massive health care reform legislation will create reporting and paperwork nightmares for U.S. businesses, large and small. Intended to improve tax reporting and compliance as to sales transactions, the new law may result in far more headaches than it is worth.

Beginning in 2012, any business which purchases more than \$600 of goods from a seller, whether at one time or in the aggregate over the course of its taxable year and whether that seller is a corporation or not, must file an information report of its purchase(s) with the Internal Revenue Service and the seller. This requirement is very similar to existing rules regarding payment of \$600 or more in compensation for services which are typically reported on a Form 1099-MISC, and the 1099-MISC will likely be the form designated by the IRS for reporting these sales. Prior to the adoption of the health care reform law, the reporting rules did not require reporting in connection with payments for most goods or to sellers that were corporations.

These new reporting requirements will result in businesses generating and receiving millions of reports each year. Just how intrusive might this reporting obligation be? Let's look, for example, at an office supply store that sells a desk chair for \$650.

If a self-employed person purchases the chair in 2012 for business use, she or he will be obligated to send to the office supply store and the IRS a 1099 reporting that purchase. Let's make the scenario even more potentially troublesome for the person with the reporting obligation. Suppose the same business person goes to the same office supply store throughout the course of the year and spends on average a little more than \$50 a month at the store. Those purchases aggregate to more than \$600. Accordingly, the business person will need to prepare and file a 1099 reporting the aggregate amount of those purchases. If the business person loses track of just one month's purchases, the aggregate purchases for the year might fall below \$600, and she or he might inadvertently fail to file the required 1099. This would expose the business person to penalties for failure to file required information returns.

This new provision is going to prove to be a massive inconvenience in terms of recordkeeping and reporting for both purchasers and sellers. It would not be surprising to see a concerted effort to get this provision, which received hardly any publicity during legislative debates, revised in some manner before 2012. One bill, H.R. 5141, has already been proposed seeking the repeal of these expanded reporting requirements, but until that bill, or a similar

bill passes, businesses should be aware of the reporting changes that will take effect in 2012.

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