



# Expanded Form 1099 Reporting Requirements Nullified

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## Overview

After numerous attempts spanning several months, the Congress has repealed the 1099 reporting requirement that was contained in the Patient Protection and Affordable Care Act of 2010 (Health Care Act) and the 1099 reporting requirement that was included in the Small Business Jobs Act of 2010 (Jobs Bill).<sup>1</sup> Both provisions were widely unpopular with taxpayers and practitioners. The bill was signed into law on April 14, 2011.

## Repeal of the Health Care Act Provision

The bill, H.R. 4 is termed the "Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011." The bill repeals the Health Care Act provision which would have (effective for payments made after December 31, 2011) extended Form 1099 reporting to corporate payees.<sup>2</sup> Specifically, the Health Care Act would have extended the Form 1099 reporting requirements for payments made in the conduct of a trade or business that total \$600 or more to a single payee (for the providers of services and sellers of goods for property of any sort) during a calendar year, including corporations (except tax-exempt entities). The provision was widely unpopular. While some partisan commentators had tried to downplay the impact of the provision, the IRS National Taxpayer Advocate, in her 2010 mid-year report to the Congress (which outlined the fiscal 2011

objectives of the Taxpayer Advocate Service) stated that the provision would apply to two million farming businesses - essentially all farming businesses in the United States.

## Repeal of the Jobs Bill Provision

The bill also repeals the Form 1099 reporting requirement that was included in the September 2010 Jobs Bill. That provision subjected taxpayers that receive rental income from real estate to file information returns - just like taxpayers that are engaged in a trade or business. Thus, persons that receive rental income from real estate must (for payments made after 2010) file information returns to the IRS and service providers reporting payments of \$600 or more during the year for rental property expenses. That has now been repealed.<sup>3</sup>

## Revenue Offset

The Health Care Act also included a provision (effective for tax years ending after 2013) that created a refundable tax credit for use in covering (at least partially) the cost of health insurance premiums for insurance purchased through a mandated state health benefit exchange<sup>4</sup> for taxpayers that are not covered via an employer's plan or a spouse's employer's plan. The provision created new I.R.C. §36B that requires taxpayers to report the taxpayer's income to the exchange so that the amount of the taxpayer's "premium assistance credit" can be

determined. Then, the Treasury Department will pay to the plan in which the taxpayer is enrolled the difference between the premium tax credit and the premium for the plan. A taxpayer's eligibility for the "premium assistance credit" is to be determined by the taxpayer's income for the tax year that ends two years before the enrollment period. The amount of the credit varies depending on household income between one and four times the federal poverty level,<sup>5</sup> and if household income is more than 500 percent of the poverty level the entire credit must be repaid. Under the bill, if household income exceeds four times the poverty level, the entire credit must to be repaid.<sup>6</sup> If household income is between three and four times the poverty level, \$2,500 worth of credit must be repaid, \$1,500 must be repaid if household income is between two and three times the poverty level, and \$600 of the credit must be repaid if household income is between one and two times the poverty level.

The Bill passed the U.S. House by a 314-112 margin, and the U.S. Senate by a 87-12 vote. As for Iowa, the entire Iowa delegation voted to repeal the expanded Form 1099 reporting provisions, except Sen. Harkin.

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<sup>1</sup> H.R. 4.

<sup>2</sup> Bill, Sec. 2, *amending* I.R.C. §6041 by striking subsections (i) and (j), and applicable to payments made after December 31, 2011.

<sup>3</sup> Bill, Sec. 3, *amending* I.R.C. §6041 by striking subsection (h), and applicable to payments made after December 31, 2010.

<sup>4</sup> Under Sec. 1311 of the Health Care Act, every state must establish a state benefit health exchange.

<sup>5</sup> Thus, the amount of the credit that a taxpayer is entitled to is tied to the poverty level, and is not tied directly to the taxpayer's income. The effect of tying the credit eligibility level to the poverty level is to impose a steep marriage penalty - married couples will receive much less publicly-funded support for acquiring health insurance.

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<sup>6</sup> Bill, Sec. 4, *amending* I.R.C. §36B(f)(2)(B).