

Understanding Healthcare Reform

PART THREE



Dave Villar, President
Pacific Coast Benefits LLC,

Dave Villar is the President of Pacific Coast Benefits LLC. He was a founder and partner of PDI Insurance Services. Dave is an active member of the National Association of Health Underwriters and a member of the Anthem Blue Cross Agent Advisory Council. He has specialized in Employee Benefit Planning for businesses since 1987. To find out more about Pacific Coast Benefits and upcoming Healthcare Reform Seminars, visit www.pacbenins.com or call (408) 847-1000.

Healthcare reform is one of those issues that continue to change with each layer peeled from the onion. An all but overlooked provision of the health reform law is threatening to swamp U.S. businesses with a flood of new tax paperwork.

Section 9006 of the healthcare bill — just a few lines buried in the 2,409-page document mandates that beginning in 2012 all companies will have to issue 1099 tax forms not just to contract workers but to any individual or corporation from which they buy more than \$600 in goods or services in a tax year. Today 1099s are required to be filed only for contract workers reaching this dollar threshold. The PPACA's expansion of the 1099 requirements will result in millions of additional filings.

Can you imagine buying a couple of Ipads from Best Buy or purchasing letterhead and envelopes from Staples and sending them a 1099? Hiring a firm to clean your office or to maintain your network would require a 1099. Arguably a sales person who drops off donuts at client's offices each week must send a 1099 to Winchell's.

The bill makes two key changes to how 1099s are used. First, it expands their scope by using them to track payments not only for services but also for tangible goods. Plus, it requires that 1099s be issued not just to individuals, but also to corporations. Taken together, the two seemingly small changes will require millions of additional forms to be sent out.

The obvious question is, "Why the expansion of IRS required 1099's and how does this relate to Healthcare reform. The answer is as obvious as the nose on your face. Expanding the 1099s filed with the IRS is expected to increase tax

compliance to the tune of roughly \$17-\$19 billion and perhaps more. The IRS estimates that the federal government loses \$300 billion annually on unreported taxable income. Learning about some of these transactions through 1099s could help close that gap.

Tax compliance isn't a bad thing at all, however, the burden on businesses, especially small firms, will be daunting. Simply consider the effort needed to collect tax ID numbers from every retail establishment or online store you have purchased goods or services from this year. The upcoming administrative nightmare of this part of the PPACA has had many lawmakers; including supporters of the new law consider a repeal of this section of healthcare reform or at least exempt small companies (fewer than 25 employees) from this requirement.

Not surprisingly the Senate voted down two attempts to remove or change the 1099 requirements inside of the new healthcare reform law as they realize the dollars needed for healthcare reform need to come from somewhere and unreported income seems to be a good place to start.

In any case, the final impact of the law won't be known until the IRS issues its regulations on the new law, which aren't expected to arrive until sometime next year. The IRS has not yet commented on when it will release regulations or schedule public hearings. As it stands today the new requirements will begin on January 1, 2012.

In the meantime, as a consumer or business owner it is imperative that you remain informed of the changes and how they will affect you and your business. Pacific Coast Benefits is here to help you navigate through Health Care Reform. Please feel free to contact me with any questions.