

Baker Tilly Tax Alert

April 15, 2011



Candor. Insight. Results.

Expanded 1099 reporting requirements repealed

On April 14, 2011, President Obama signed the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (the Act). The Act repeals the expanded Form 1099 information reporting rules added by recent legislation, which were widely viewed to be overly burdensome to small business.

In 2010, the Patient Protection and Affordable Care Act and the Small Business Jobs Act increased 1099 reporting requirements for businesses and rental real estate owners. Prior to the legislation, taxpayers were generally required to report to the IRS payments for services when the payments to a single recipient totaled at least \$600 in a calendar year. Reporting was required when the payor was considered to be engaged in a trade or business and the payment was made in connection with that trade or business. There were a number of exceptions to the general rule, including exemptions for payments to corporations (probably the most notable), tax-exempt entities, government entities, international organizations, and retirement plans. However payments for attorneys' fees and amounts paid to corporations that provide medical or health care services were **not** exempt from reporting.

Business reporting. Repeal means that the pre-2010 legislation Form 1099 reporting rules for business remain unchanged. In particular, businesses must continue to issue Forms 1099 for payments of \$600 or more to a single payee for services. The long-standing exceptions for payments to corporations and certain other entities remain in place, but attorneys' fees and payments to corporations for medical or health services must be reported.

Rental real estate. The new law repeals the expanded reporting requirements for rental real estate. Those expanded requirements would have required almost all landlords to file and issue Forms 1099 for payments of \$600 or more. Under previous law, only rental real estate owners engaged in activities that rise to the level of a trade or business were required to follow the Form 1099 reporting rules. The repeal is retroactive and applies to payments made after Dec. 31, 2010. This new law provides an immediate easing of an administrative burden for landlords not engaged in the rental real estate business as they will no longer need to track payments for Form 1099 reporting purposes. However, taxpayers whose rental real estate activities rise to the level of a trade or business are still subject to the general reporting requirements described above.

Revenue offset. Beginning in 2014, a taxpayer who purchases qualified health care coverage through an exchange is entitled to receive a refundable income tax credit to help cover the cost of insurance premiums. Generally, the credit is available for taxpayers with incomes between 100 percent and 400 percent of the federal poverty line (FPL). The premium assistance credit can be paid in advance by the Treasury, but if this advance payment exceeds certain limits, the taxpayer must repay the excess.

Under the Act, for tax years ending after Dec. 31, 2013, the repayment caps are increased for taxpayers with household income between 200 percent and 400 percent of the FPL, and full repayment is required for taxpayers whose incomes exceed 400 percent of the FPL.

For more information or any questions you might have on this topic, we encourage you to contact your Baker Tilly tax advisor or send an e-mail to tax@bakertilly.com.

bakertilly.com

An independent member of Baker Tilly International

Pursuant to the rules of professional conduct set forth in Circular 230, as promulgated by the United States Department of the Treasury, nothing contained in this communication was intended or written to be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer by the Internal Revenue Service, and it cannot be used by any taxpayer for such purpose. No one, without our express prior written permission, may use or refer to any tax advice in this communication in promoting, marketing, or recommending a partnership or other entity, investment plan, or arrangement to any other party.

Baker Tilly refers to Baker Tilly Virchow Krause, LLP, an independently owned and managed member of Baker Tilly International. The information provided here is of a general nature and is not intended to address specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.
© 2011 Baker Tilly Virchow Krause, LLP