



PADGETT BUSINESS SERVICES® WHERE YOUR SUCCESS TAKES ROOTSM

Contact: Roger Harris
President & COO
Padgett Business Services
(706) 548-1040
rharris@smallbizpros.com

**Testimony of Roger Harris, President Padgett Business Services
US Senate Committee on Small Business & Entrepreneurship
November 18, 2010**

Good morning Madam Chairman and members of the committee. My name is Roger Harris, President of Padgett Business Services. It is a pleasure and an honor to again have the opportunity to speak to your committee. Padgett Business Services has been providing accounting and tax services to small business owners across North America for more than forty years. Today we provide services to tens of thousands of small business owners across the United States through our US network of 300 offices.

Someone once described a small business owner as someone that got to do the one thing they loved along with ninety-nine things they hate. I can assure you, record keeping and the associated burden is one of those ninety-nine things they hate. However, small business has accepted its responsibility to record and report information for years and will continue to do so if they believe the burdens are reasonable and the benefits are clear and understandable. However, we all need to understand, as your Committee does, that when new requirements are placed on the small business owner they are faced with spending more time and money on things that do not help them grow their business and employ more people, something we desperately need them to do. For that reason we must be careful not to increase the burdens on small business owners without completely understanding the true costs of those burdens.

First we should all recognize that rules and regulations are placed on small business from many places. While today we are focusing on Federal rules and regulations, small business owners are also being asked to comply with State and Local regulations and from many other agencies at all levels as well. These entrepreneurs may also be asked to produce information for their insurance company, their customers, their vendors, and the list goes on and on. If we want small business to continue to be the engine that runs our economy we must make sure we give them the time to do so.

I would like to discuss with the committee the concern all small business owners have regarding the new 1099 information reporting requirements scheduled to begin in January of 2012. While all studies indicate that when third party reporting is in place, compliance increases, it does not mean that all third party reporting is beneficial and necessary. In my many years of working with small business owners it would be difficult to find an issue that has generated as many discussions and concerns as this new reporting requirement. I want to commend Senator Landrieu and her committee for recognizing the concerns of the small business community and offering a bill to make this a more acceptable requirement.

If you took a poll of small business owners and asked if they would prefer to modify or repeal the new reporting rules, I think we all know how that poll would come out. As a general rule if a small business owner is asked if they want more records to keep, or more forms to file, they will not be in favor of that expansion. The real question is will they accept these new rules and will the system as a whole be better off at the end of the day. I think the reporting requirements that are in place today help prove that point. Most small business owners must track payments to non corporate taxpayers for services provided if the amount of those payments exceeds \$600 per year. They must gather identifying information from the person they pay and must file annual 1099 forms with the IRS. When this requirement was first presented we heard many of the same concerns we are hearing today. But with the passing of time, the current reporting requirement is considered a routine process for most small business owners. There were added costs when the current rules were enacted and those costs are still there today. While I have no personal information I assume today's requirement has resulted in increased compliance and therefore an increase in tax revenues.

Given that small business already has procedures in place to comply with the current rules why are the new requirements so unpopular and why is the opposition to them so strong? One part of the new regulations expanded this reporting provision to cover corporate taxpayers as well. While this would increase the number of entities covered and the payments that must be tracked, this is not from where the significant increase in burden comes.

If nothing is changed beginning January 1, 2012 business owners will be required to keep up with and report to the Internal Revenue Service all amounts paid in consideration for property in excess of \$600 per year. This means that a small business owner must have a system to track almost all of their payments by Vendor, produce a 1099 form and file that form with the IRS and the recipient each year. This in and of itself adds tremendous burden on the small business owner, but it does not end there. Many of these vendors are large companies and have many different business structures. This requirement would require the small business owner not only gather basic reporting information but also understand the many different business structures that a vendor could present if the information they report is going to be accurate and useful. The new rules, if they do not change, would mean a small business owner must get the name, address and tax identification number of their phone company, then keep up with all payments and report

them to both the phone company and the IRS. Who would benefit from this increase in burden? Not the IRS, not the phone company, and certainly not the small business owner. So if this new requirement is needed it must be modified to insure the burdens are reduced and the benefits are increased. How can this be done?

As a first step I agree with the changes made by your committee in the “Information Reporting Modernization Act of 2010”. The threshold must be increased to at least \$5000 and indexed for inflation to make sure it stays current with inflation. I also support the exemption for payments made by credit and debit cards and the need to make reporting to the IRS easier. These are positive steps but I would like to offer additional modifications as well.

Either by legislation or regulations there must be exemptions for certain types of industries. Obvious exemptions would be utility companies, insurance companies, airlines, etc. This should help reduce many of the payments that must be reported by a business owner. This also should not reduce compliance because the value of the information gathered by this type of reporting will provide little, if any, useful information to the IRS to supplement its compliance activity.

I also feel there should be a small business exemption. For the smallest of small businesses this burden could be massive, and until such time as they reach a certain size, they should be exempt from these new compliance burdens. Others have suggested this type of exemption and based it on the number of employees. I do not believe that in this economy we should tie any increase in burden to hiring an additional employee. I suggest the exemption should be based on annual sales. I think most business owners would not hold back additional revenues if it meant additional paperwork. I would offer an exemption of \$1,000,000 in annual sales. Until a business exceeds the threshold they are only required to comply with the current rules for 1099 reporting.

I would also suggest we look for a way to only require payments to be reported when they are paid to a business and the information will help the IRS in its compliance activities. If a business gets a significant amount of their revenue from individual customers, where no reporting is required, and only a small amount from their business customers, I question the benefits of that information when compared to the burden placed to the small business owner. Congress should work with the IRS to determine if it is possible to issue guidelines so that payments made to a business which receives a certain percentage of their revenue from individuals, or a small amount of their revenue from business customers, can issue a document to their business customers indicating that they are exempt from the new 1099 reporting requirement. This would help exempt some payments that are made to a business, which would otherwise be required to be reported, when very little of that businesses revenue is generated from other business customers.

I would offer one word of caution as we look for additional ways to reduce the 1099 burden on small business owners to a more acceptable level. We must never create a situation where it is better to do business with a larger business than a smaller business because the amount of burden is greater if you buy from the small business. An example

of that would be to create an exemption for publicly traded companies because they are audited every year. Only large companies are publicly traded but they compete every day with small business that provides the same product. I would hate to see other business owners buying from the larger business because doing so would not require them to issue a 1099 to the larger business, but would be require a 1099 if they bought the same product from the smaller business.

While this new regulation does not take effect until 2012 the small business community needs to know what this could mean to them well before the end of next year. If this regulation stays in place in its current or similar fashion much work is needed to prepare systems and gather information to be in a position to comply. For that reason I would ask that these new regulations be given a high priority by Congress to decide their final fate. No matter what the final decision is, much work will be required to properly educate all that will be impacted by these new rules.

I appreciate the opportunity to be here today and I hope my comments and perspective are helpful. I look forward to working with you and your staff going forward so we can reduce or eliminate the burdens many small business owners face everyday. Hopefully, if we allow these businesses to focus on the one thing they love, they can either build or maintain a successful business. Nothing would be better today for our economy.

I look forward to your questions.