



## Small Business Background 2011

### 1099 Reporting Requirements Background

- United States tax law requires businesses to submit a Form 1099 for every contractor to which they pay at least \$600 for services during a year. This includes rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments or other fixed or determinable gains, profits and income. This requirement exempts payments to corporations. *Source: The Catholic University of America; Office of General Counsel*
- Passed in to law on March 23, 2010, the Patient Protection and Affordable Care Act expanded 1099 reporting requirements to include payments to corporations, and purchases of goods such as office equipment, food, bottled water, gasoline, lumber, travel and many other things that are currently exempt. The new requirements were to take effect beginning January 1, 2012.
  - The new requirements were included as a means for helping to fund the expansion of health care coverage. Revenue from this requirement was expected to reach \$17 billion over 10 years.
  - The new requirements would apply to over 38 million businesses, including 26 million sole proprietorships and 2 million farms. *Source: "Tax Provision of Health Care Law Opposed by Many in Both Parties," The New York Times*
- On March 3, 2011, the House passed legislation to repeal the provision in the Patient Protection and Affordable Care Act that would have extended 1099 reporting requirements. The Senate, after much debate on how to replace the added funds, also passed legislation to repeal the provision. President Obama signed H.R. 4 in to law on April 14, 2011, finalizing the repeal. *Source: The Normandy Group*

### Small Business Jobs Act of 2010 and SBA 504 Loan Program Background

- The Small Business Administration (SBA) 504 Loan Program was initiated in 1986. It is a fixed-asset lending program intended for economic development and job creation.
  - A typical 504 loan consists of a 10% investment by the small business owner, a 50% conventional loan from a private sector lender and a 40% loan from a Certified Development Company that serves as the 504 loan administrator on behalf of the SBA.
  - The SBA 504 loan is issued at a long-term fixed interest rate which gives the small business owner a great deal of predictability in terms of debt payments over time.
  - The SBA 504 loan program is a self-supporting program that requires no taxpayer funds to operate other than the cost of staffing the SBA.
- The Small Business Jobs Act of 2010 (SBJA) allowed, for the first time ever, the program to be used to refinance and restructure existing conventional bank loans.
- The expanded loan program was set to expire two years after it was signed in to law. It was signed on September 27, 2010, and will expire on September 27, 2012. This portion of the SBJA has not yet been implemented, but the expiration date has not changed, thus closing the two-year window down to less than a year and a half.
- SBA 504 loans administered by the approximately 260 Certified Development Companies are backed by federal securities, creating little risk for these companies in the event of a bad loan.
  - With such little risk involved, there is incentive to make bad loans simply for the purpose of being able to profit off of the loan initiation fees.
  - A mandate requiring these Certified Development Companies to partially back any losses that result due to bad loans would encourage better lending and a more efficient system overall. *Source: Colorado Lending Source*