



TO: Joint Ways & Means Sub-Committee on General Government
FROM: Jon Chandler (jchandler@oregonhba.com)
RE: HB 2464 A-Engrossed
DATE: June 4, 2013

The Oregon Home Builders Association is opposed to HB 2464 A-Engrossed.

This is not because we condone underreporting of income or any other form of tax cheating, but because we believe that this bill will cost good actors a lot of money to comply (and dramatically increase their legal exposure) without doing much to identify and pursue the bad actors.

The bill won't accomplish its stated purpose of targeting underreporting of income.

If this bill were to become law, 1099s for construction services would be sent by businesses using said services to the corporations which provided them. Construction corporations often do work for individuals (who would not send 1099s) and for businesses (who would), but they report their income on one line item on their tax form. The only way to ensure that all income is reported is to perform an audit, something at which the Oregon Department of Revenue hasn't historically excelled. If recovering all the taxes owed is the objective, more paperwork without increased enforcement isn't the answer.

The bill further complicates tax compliance by disconnecting from federal tax policy and by being inconsistent with existing Oregon tax requirements.

Under HB 2464, Oregon will require 1099s for corporate payees, but only for construction services; the IRS will not. This makes an already complicated system even more so, which is particularly troubling in light of the penalties contained in the legislation.

It also creates a disconnect between Oregon's existing practice: under this bill, 1099s will be required for 'construction services' but not for anything else, which will require businesses to not only obtain and maintain information from corporate payees (which they aren't currently required to do) but to differentiate between payments made - perhaps to the same payee - for covered construction services vs. any other purchases. This will simply increase complexity and exposure to penalties.

The bill disproportionately burdens small companies.

Every house built, whether a mansion or a starter home, involves roughly the same number of sub-contractors, vendors, suppliers, trades and other providers of 'construction services'. Since it is typical for a builder to use the same providers on each house, smaller companies will likely have the same number of

1099s to identify and issue as will a large firm, but the costs of doing so are far higher for smaller companies relative to their overall revenue.

The bill will be expensive for builders to implement.

What appears below are excerpts from some of the emails I received when I asked my clients what the impact of HB 2464 would be. These are unedited other than to hide identifying information, but they are from both small and large home building or remodeling contractors.

- *We estimate, that between the added office tracking, the added time away from other tasks, even though we use bookkeeping software, that we would have added costs of upwards of \$1500, which includes forms, envelopes, stamps, processing and tracking.*
- *After having a discussion with my bookkeeper on this subject, in order to add that number of additional forms to be processed (over the 5-6 that we currently process), it will take somewhere between 15-30 minutes per 1099 to be sure that we had ALL of the correct information and to do the actual proceeding, not to mention the additional cost for the forms, envelopes and postage. Adding between 40-50 forms, we are looking at approximately \$15 in actual cost per 1099.*
- *Yes, this would be a burdensome addition. Right now we have less than 100 1099's reported to the Fed, so Oregon doesn't require any 1099 reporting. This would require us to report. Further, the Fed has postponed adding C corps to the reporting requirement. This amendment appears to require all companies to report which would make it inconsistent with the Fed reporting and add to our burden. Also, this amendment defines reporting for "construction services" only, making it inconsistent again. Ideally, the definition of what has to be reported to the state should be consistent with the Fed.*
- *I send out 4 or 5 a year. Start including corps and it would be to people like probuild and all my other suppliers add an additional 15 or 20 and as our CPA sends those out say about 3 to 500 dollars more out of my pocket*
- *1099 reporting already is a cumbersome task for businesses. From collecting federal identification numbers to updating computer software each year to take in any changes is costly. Currently we spend at least 2 to 3 hours sorting vendors, collecting federal identification numbers, printing and mailing forms, and finally reporting to the federal government. Adding C Corps for corporations too is only going multiply the costs and time necessary to complete this task. If we are spending 3 hours currently, we will spend at least an additional 6 hours if required to include C Corps.*
- *If I had to do 1099's for C Corps, that basically would be everybody else that I purchase/contract \$600 or more a year from. In 2012, that would have meant 40 1099's instead of 6. In a good year, that would mean 50-60 instead of 10-12. I would estimate that I would spend a lot of time the first year (10-20 hours?) getting updated W-9's from all my C Corp subs/suppliers and inputting them into my QuickBooks system. I think the year-end processing would be just about 5-6 times more lengthy - 8-10 hours instead of 1.5-2 hours. I also think the mid-year notices from the IRS requesting corrections on reporting information would increase, too.*
- *We currently send out about 5-20, 1099's per entity each year. Based on my understanding this bill would specifically add only construction contractors - if it were to go into effect the likelihood is that for _____ and _____ we would end up sending out an addition 5-10, 1099's. Where we would be hit hardest is with the construction entities - _____ and _____ could have to issue an additional 25 -*

50, depending on the subs. Also, if _____ ends up doing any site development for any piece of land any subs they use that are C-corps would need 1099's as indicated below.

- *My staff is telling me that we do 7-8 1099's every year and we probably have 120 or so corporations. It takes about 15 to 20 minutes to fill out each one including the research with the corporation. Then we have to buy the form, postage for the 1099 recipient as well as to the government and the envelopes to send them – approx \$2.00 each. But the real expense is the labor to do the filing. We would have to hire additional help equivalent to a week's work for us not to mention the time taken away from our normal business duties.*

In conclusion, we believe that HB 2464 A-Engrossed is an expensive, cumbersome and inefficient way to go after underreporting of income, and one which unfairly burdens one segment of the economy that has already been burdened by the recession. If the legislature wants to increase funding for ODR to go after tax cheats by increasing enforcement and audit capabilities, OHBA would be supportive, but we urge you to not move this bill forward.