

Washington Slows The Economic Recovery

“**L**egislation is like sausage,” said Otto von Bismarck. “It’s better not to see it being made.” Although the German statesman made that observation in the late 19th century, he might well have been discussing contemporary Washington D.C., and specifically what is commonly known as “Health Care Legislation.” Although the stated purpose of the landmark 2,600-page bill is to make the nation healthier, happier, and more prosperous, it also happens to contain a provision guaranteed to cause ulcers, stress, hypertension, and fits of uncontrollable anger among 15 million small business owners. Big business probably won’t be too happy either, but they typically are better equipped to deal with regulatory intrusions.

The provision we refer to deals with filing “1099” forms with the IRS. In the past, if a business purchased services from a non-employee valued at over \$600, they were required to send the IRS and the individual a 1099 listing the precise amount paid. Many music retailers already file these forms for teachers or service technicians who operate as subcontractors. In the new health care bill, however, the 1099 requirement has been expanded to include all goods valued at over \$600. For the typical m.i. retailer, the new law would require that they send a 1099 to all their vendors: their landlord, the local office supply store, the phone company, and everyone else who sells them stuff worth over \$600. Penalties for non-compliance include “fines and possible prison terms.”

The Congressional Budget Office, which is tasked with examining each piece of legislation to determine its impact on the Federal Budget, has concluded that the expanded 1099 requirement will generate an additional \$17 billion in revenue because it will help close the “tax gap.” For those outside the Beltway, that refers to the difference between what the IRS thinks it should be taking in, and the cash that actually materializes on April 15. In Congress, however, where 508 of 535 seats are occupied by lawyers with no business experience, no one ever stopped to consider the costs of compliance with the new regulations.

We don’t pretend to know the precise cost of this new bill, and we doubt that it would be enough to put any viable business under. However, at a time when the economy continues to struggle, profits are thin, and unemployment is high, business proprietors shouldn’t be forced to waste energy tracking down the tax ID num-

bers of every supplier (God knows what happens if some are based offshore!), updating business software to churn out more 1099s, and meeting with a tax expert to try and stay within the law.

In the past three years, the music products industry has seen more destructive government intervention than at any time since the 1930s, when “New Deal” policies attempted to set uniform pricing and terms for all musical instruments. In 2007 there was the Federal Trade Commission examination of “non-competitive” pricing practices. After two years of investigating, and \$12 million in legal fees, two dozen industry suppliers were exonerated.



However, the FTC action spawned dozens of pending class action suits that, even if dismissed, will exact a substantial cost on industry suppliers. Then there’s the pending Lacey Act, which requires retailers and manufacturers to verify the species and origin of the wood in any product they handle. (The

Department of Interior is still trying to determine whether paper is covered by the Lacey act.) Now this burdensome 1099 requirement.

As in high level sports competition, victory and defeat in commerce is usually determined by small margins. Each one of these regulations distracts from the core tasks of innovating, serving the customer, investing in growth, and providing opportunity for individuals. In the process, they slow the pace of economic recovery. If there is a compelling case why the IRS needs to know how much you spend with each vendor, let them make it. Otherwise, this seems like a useless intrusion and a violation of privacy. We urge everyone to contact their senators and representatives to protest. They need to be reminded that this is a particularly inopportune time to further burden the private sector.

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