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Regulation Affects Your Profits

Small businesses seem to pay a higher price than others when it comes to government regulations in particular. What do you think can be done?

The costs of regulation for small businesses far outweigh the costs of regulation for large businesses, according to “The Impact of Regulatory Costs on Small Firms,” a 2010 study released by the Small Business Administration (SBA) Office of Advocacy (<http://archive.sba.gov/advo/research/rs371tot.pdf>). Small businesses with fewer than 20 employees pay approximately 36% (or approximately \$3,800) more per employee for regulations than do large firms with 500 or more employees. Higher regulation costs result in lower profits for small businesses.

Environmental regulations have the most significant impact on small firms, which pay more than 360% more to comply with them than large firms do. And the costs for small firms to comply with tax regulations are three times more per employee than for large firms and twice as much as for medium-sized firms (20 to 499 employees).

This already high burden of tax compliance on small firms and the understanding of the impact of additional regulations caused overwhelming support for the

repeal of Section 9006 (Expansion of Information Reporting Requirements) of H.R. 4 (Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011). H.R. 4 repealed the 1099 reporting provision that was part of the healthcare reform bill (H.R. 3590, Patient Protection and Affordable Care Act) enacted March 23, 2010. Section 9006 of H.R. 4 would have required companies to file a 1099 for all vendors that have cumulative transactions of \$600 or more. Small businesses would have had to track each vendor, the vendor’s taxpayer identification number (TIN), amount of payment, and method of payment. It would have required additional resources, increased paperwork, and increased internal controls.

Several organizations, including IMA®, rallied to repeal the provision and voiced concern about the burden it would cause small businesses. The overwhelming outcries led to the repeal of the 1099 provision on April 14, 2011.

It’s harder to foresee the impact of other provisions on small businesses. For instance, the Sarbanes-Oxley Act of 2002 (SOX) was considered a large-business issue, but

it impacted small businesses’ access to capital when many small public banks delisted and became private banks. It also affected reporting requirements for some small businesses. If a small business provides outsourced services to a large company, it would have to provide additional reports in prescribed formats that would ensure the large company complied with the necessary regulations.

How Did We Get Here?

Abuse of loopholes and lack of oversight have led to tighter financial regulations. Think Enron, WorldCom, Tyco International, the Bernie Madoff scam, and questionable mortgage industry lending practices (to name just a few). The enhanced 1099 reporting requirements were the result of recommendations from the Government Accountability Office’s (GAO) Report GAO-09-238, *Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements*, issued in January 2009. The GAO recommended that Congress require payers to report payments to corporations on form 1099-MISC.

continued on page 23

Small Business

continued from page 14

Not everyone was taking advantage of loopholes or committing fraud. But the actions of those that did have caused increased regulation and oversight for all in an attempt to prevent additional abuse. Periods of high regulation have traditionally followed periods of minimal regulation or oversight, so this isn't new.

Prevention Is Key

What can you do to help prevent fraud and abuse?

- ◆ Be responsible during the good times.
- ◆ Encourage others to be responsible.
- ◆ Give quality advice to your employers and clients, and advocate ethical behavior.
- ◆ Evaluate the impact of current accounting processes and decisions on future economic consequences.
- ◆ Monitor regulatory pronouncements, proposals, and issues, and advocate regulation friendly to small businesses.

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The Small Business Financial and Regulatory Affairs Committee (SBFRC) can address regulatory issues of concern to small busi-

nesses by contacting regulatory bodies on behalf of IMA small business members. For additional information, contact the SBFRC via *LinkUp IMA* at <http://linkup.ima.com/pages/home>. **SF**

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