

Government Withholding Relief Coalition

March 2, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

Dear Leaders Reid and McConnell:

The Government Withholding Relief Coalition and its member organizations strongly urge you to repeal the 3% tax withholding law this year. This law, which was enacted in Section 511 of the *Tax Increase Prevention and Reconciliation Act of 2005* (P.L. 109-222), mandates that federal, state, and local governments withhold 3% of nearly all of their contract payments, Medicare payments, farm payments, and certain grants. Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sectors, and the Coalition stands ready to work with you to improve tax compliance for companies receiving federal dollars while also repealing the onerous 3% withholding law.

The Administration recently proposed two such methods which obviate any rationale or need for retaining the withholding mandate and will be far more cost-effective for the government. On January 20, 2010, the Administration released a memo requiring the Internal Revenue Service to review the certifications of non-delinquency in taxes that are required on all federal contracts. In addition, the Office of Management and Budget, working with other agencies, is to develop recommendations to prevent companies with serious tax delinquencies from receiving contracts and to make contractor certifications more easily available.

Also, included in the Department of the Treasury's Green Book (page 101) that was released with the President's Budget is a proposal to allow information reporting on federal non-wage government payments. This proposal would enhance transparency and therefore increase tax compliance without imposing an enormous burden on the government sector.

These two proposals directly address the real concern about companies not paying legitimate taxes and still receiving federal monies, and they are a much better approach than the costly, broad brush mandate of the 3% withholding law. The withholding is already proving costly, and such costs will increase exponentially as the implementation deadline moves closer. While this requirement is not scheduled to go into effect until January 1, 2012, businesses and governmental entities are spending funds now in preparation for implementation due to major system and regulatory changes that have to be made well in advance of 2012. As an example, the Department of Defense estimated in a 2008 report that it will cost the Department more than \$17 billion in the first five years to comply with the 3% withholding requirement. While only a small portion of total compliance costs for all levels of government, it nonetheless far exceeds any projected revenue gains from increases in tax compliance. Moreover, imposition of this requirement comes at a time when neither the public nor private sector can afford to be burdened with unnecessary costs at the expense of providing government services and investing in jobs.

We strongly believe that private entities providing goods and services to the government should comply with federal, state, and local tax requirements—companies that do not comply have an unfair competitive advantage over law-abiding contractors that pay their taxes. However, withholding on government payments is not the answer. We believe there can be a more reasonable approach that ensures tax

compliance, but does not place undue burden on companies or federal, state, and local government agencies.

The Coalition believes that the concepts in the Administration's new directive and budget proposal described above represent a more measured, responsible approach to accomplishing the aims of the 3% withholding law without the enormously costly and resource-intensive efforts necessary to comply with it. We look forward to being an active partner and contributor to developing a cost-effective means to increase tax compliance and repeal the 3% tax withholding law.

Sincerely,

Government Withholding Relief Coalition

- Aeronautical Repair Station Association
- Aerospace Industries Association
- Air Conditioning Contractors of America
- Air Transport Association
- America's Health Insurance Plans
- American Bankers Association
- American Clinical Laboratory Association
- American Concrete Pressure Pipe Association
- American Congress on Surveying and Mapping
- American Council of Engineering Companies
- American Farm Bureau Federation
- American Health Care Association
- American Institute of Architects
- American Logistics Association
- American Moving and Storage Association
- American Nursery and Landscape Association
- American Road & Transportation Builders Association
- American Shipbuilding Association
- American Society of Civil Engineers
- American Subcontractors Association
- American Supply Association
- American Traffic Safety Services Association
- American Trucking Associations
- Armed Forces Marketing Council
- Associated Builders and Contractors
- Associated Equipment Distributors
- Association of National Account Executives
- Coalition for Government Procurement
- Colorado Motor Carriers Association
- Computing Technology Industry Association
- Construction Contractors Association
- Construction Industry Round Table
- Construction Management Association of America
- Design Professionals Coalition
- Edison Electric Institute
- Electronic Security Association
- Engineering & Utility Contractors Association
- Federation of American Hospitals
- Financial Executives International's Committee on Government Business
- Financial Executives International's Committee on Taxation
- Finishing Contractors Association
- Gold Coast Hispanic Chamber of Commerce
- Government Finance Officers Association
- Independent Electrical Contractors, Inc
- International Council of Employers of Bricklayers and Allied Craftworkers
- International Foodservice Distributors Association
- International Municipal Lawyers Association
- Management Association for Private Photogrammetric Surveyors
- Mason Contractors Association of America
- Mechanical Contractors Association of America
- Medical Group Management Association
- Messenger Courier Association of the Americas
- Miami Dade County
- Modular Building Institute
- National Association for Self-Employed
- National Association of Counties
- National Association of Credit Management
- National Association of Manufacturers
- National Association of Minority Contractors
- National Association of State Procurement Officials
- National Association of Wholesaler-Distributors
- National Beer Wholesalers Association
- National Defense Industrial Association
- National Electrical Contractors Association
- National Electrical Manufacturers Association

- National Emergency Equipment Dealers Association
- National Federation of Independent Business
- National Institute of Governmental Purchasing
- National Italian-American Business Association
- National League of Cities
- National Precast Concrete Association
- National Office Products Alliance
- National Roofing Contractors Association
- National Small Business Association
- National Society of Professional Engineers
- National Society of Professional Surveyors
- National Utility Contractors Association
- National Wooden Pallet and Container Association
- North-American Association of Uniform Manufacturers & Distributors
- North Coast Builders Exchange
- Office Furniture Dealers Alliance
- Oregon Trucking Association
- Plumbing-Heating-Cooling Contractors - National Association
- Printing Industries of America
- Professional Services Council
- Regional Legislative Alliance of Ventura and Santa Barbara Counties
- Santa Rosa Chamber of Commerce
- Security Industry Association
- Sheet Metal and Air Conditioning Contractors National Association, Inc.
- Small Business & Entrepreneurship Council
- Small Business Legislative Council
- TechAmerica
- Textile Rental Services Association of America
- The Associated General Contractors of America
- The Association of Union Constructors
- The Distilled Spirits Council of the U.S.
- The Financial Services Roundtable
- U.S. Chamber of Commerce
- United States Telecom Association
- Veterans Entrepreneurship Task Force
- Women Impacting Public Policy