
Statement for the Record Government Withholding Relief Coalition

ON: THE NEW HIDDEN TAX ON SMALL BUSINESS
TO: THE HOUSE COMMITTEE ON SMALL BUSINESS
DATE: MARCH 22, 2007

The undersigned organizations of the Government Withholding Relief Coalition wish to thank Chairwoman Nydia Velázquez and the members of the House Small Business Committee for holding this hearing on the issues surrounding Section 511 of the Tax Increase Prevention and Reconciliation Act (PL 109-222).

The Government Withholding Relief Coalition was formed after the passage of the tax reconciliation bill by organizations concerned about the disruptive effect this provision will have on our members. The Coalition today has over 55 members representing both small and large businesses with a wide range of industry viewpoints.

Section 511 created a sweeping requirement mandating that federal, state, and local governments withhold three percent from all payments for goods and services. This provision, which becomes effective for all payments made after December 31, 2010, will affect all government contracts as well as other payments, such as Medicare, disaster and farm payments.

The members of the Coalition strongly believe that everyone should pay their full tax liability. Companies that do not pay their taxes enjoy an unfair competitive advantage and increase the burden on honest taxpayers. However, Section 511 received no congressional or public input before being inserted into legislation during closed-door conference negotiations. Due to the absence of congressional and general public scrutiny, the legislative provision contains numerous deficiencies.

- **Significant increases in private-sector administrative costs.** The administrative costs to companies – as well as governments – to comply with this withholding requirement will be substantial. Companies’ internal systems are not set up to track the amounts withheld from invoice payments. This will significantly complicate the estimating of tax liabilities on quarterly tax payments. For companies receiving thousands of government payments per year, this will be administratively time consuming and costly.
- **Adverse effects on cash flows of companies.** Compliance with Section 511 will reduce cash assets that are used to pay company employees and other day-to-day expenses. Start-up firms and some industries will be severely impacted by this reduction in cash receipts. For instance, in many construction projects profits are not realized until the end of a multiyear contract. Despite this, contractors will have had three percent withheld throughout the life of the contract.
- **Unfairly burdens honest taxpayers.** More efforts should be focused on identifying and prosecuting, if appropriate, the actual tax cheats rather than adding to the administrative burden placed on honest businesses. This proposal treats tax-compliant businesses the same as those illegally avoiding the payment of their tax obligations. The extra cost to implement the provision will, in our opinion, far exceed the additional tax gap revenues it is estimated by the Joint Committee on Taxation to raise.

- **Withholding is not based on a taxpayer's expected liability.** This is unlike withholding on employees' earnings, which can be adjusted through the W-4 form to more closely reflect the individual's tax liability. Section 511 is based on a company's revenue stream, with no relationship to tax liability. Therefore, companies with tight margins will have their cash flows unnecessarily constrained, which will impinge on cash needed for day-to-day operations.
- **An interest-free loan to the federal government.** Most of the \$7 billion in revenue occurs in the first year of implementation and is due to an accounting gimmick whereby companies are forced to prepay their taxes and effectively provide the federal government with an interest-free loan. The estimated annual increase in tax compliance is about \$250 million per year.
- **Section 511 is causing problems now.** Government contracts frequently cover periods of 5 years or longer in length. This means that companies entering into these long-term contracts must consider in their pricing the additional administrative and financing costs to implement this requirement. The additional expenses incurred by contractors will increase the costs of goods and services associated with the three percent withholding.

Section 511 will have broad and deleterious effects on both small and large firms doing business with federal, state, or local governments. Ultimately, the increased costs for these services will be passed on to the individual taxpayer with a negligible increase in federal tax revenues. In short, the costs far outweigh the benefits. The Coalition and the undersigned organizations feel that for these reasons Section 511 should be fully repealed and we urge committee members to cosponsor H.R. 1023, a repeal bill introduced by Representatives Kendrick Meek (D-Florida) and Wally Herger (R-California).

Sincerely,

Government Withholding Relief Coalition

Aerospace Industries Association
Air Transport Association
America's Health Insurance Plans
American Congress on Surveying and Mapping
American Council of Engineering Companies
American Farm Bureau Federation
American Institute of Architects
American Moving and Storage Association
American Nursery and Landscape Association
American Road & Transportation Builders Association
American Shipbuilding Association
American Society of Civil Engineers
American Supply Association

American Trucking Associations
Associated Builders and Contractors
Coalition for Government Procurement
CompTIA
Construction Management Association of America
Contract Services Association
Design Professionals Coalition
Edison Electric Institute
Electronic Industries Alliance
Federation of American Hospitals
Financial Executives International's Committee on Government Business
Financial Executives International's Committee on Taxation
Independent Electrical Contractors, Inc
Information Technology Association of America
International Foodservice Distributors Association
Management Association for Private Photogrammetric Surveyors
Mason Contractors Association of America
Mechanical Contractors Association of America
Messenger Courier Association of the Americas
National Association for Self-Employed
National Association of Credit Management
National Association of Manufacturers
National Burglar and Fire Alarm Association
National Defense Industrial Association
National Electrical Contractors Association
National Federation of Independent Business
National Italian-American Business Association
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 Wooden Pallet and Container Association
Office Furniture Dealers Alliance
Plumbing-Heating-Cooling Contractors - National Association
Printing Industries of America
Professional Services Council
Security Industry Association
Small Business & Entrepreneurship Council
The Associated General Contractors of America
The Financial Services Roundtable
U.S. Chamber of Commerce
United States Telecom Association
Women Impacting Public Policy