

United States Senate

WASHINGTON, DC 20510

June 12, 2007

The Honorable Max Baucus, Chairman
The Honorable Charles E. Grassley, Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Grassley:

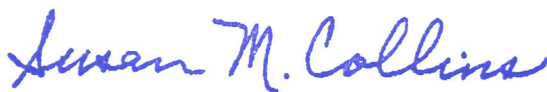
We write to you regarding the new 3% withholding tax on federal, state, and local government contracts for goods and services enacted as Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222). This 3% withholding tax is scheduled to go into effect in 2011.

While we understand and support your commitment to closing the tax gap, we do not believe that Section 511 is the appropriate means to achieve that goal. We are concerned that the 3% withholding provision is overbroad, and will unfairly penalize contractors that pay their taxes. Many of these contractors operate on very narrow profit margins – often 3% or less – and will be unable to comply with Section 511's withholding requirement without sacrificing the lion's share of their cash flow.

We are particularly concerned about the impact of the 3% withholding provision on small businesses in the construction industry. Contractors rely on their cash flow to finance investment and expansion, and as security for bonds they are required to hold in order to do business with the federal government. The 3% withholding requirement may so severely restrict cash flow that contractors will find it difficult or impossible to secure bond coverage, and as a result, many contractors will be driven out of the market. This, in turn, will lead to higher prices for the goods and services they supply to the federal government.

We are seeking a workable alternative to Section 511 that helps to address the problem of the tax gap without placing an undue burden on honest contractors. We would welcome the opportunity to work with you towards that end.

Sincerely,



SUSAN M. COLLINS
United States Senator



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United States Senator