

Government Withholding Relief Coalition

March 8, 2007

The Honorable Eric Solomon
Assistant Secretary for Tax Policy, Office of the Deputy Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 3120
Washington, DC 20220

Dear Assistant Secretary Solomon,

The Government Withholding Relief Coalition and its member organizations, which came together in strong opposition to Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005, appreciate the Administration's recently released revenue proposal for increased information reporting on certain government payments. As the Treasury Department, Internal Revenue Service, U.S. Congress, and others in the federal government work to improve taxpayer compliance, we believe that information reporting on federal non-wage government payments, only if in conjunction with the repeal of Section 511, would effectively advance this goal.

The sweeping requirement in Section 511 mandating that federal, state, and local governments withhold 3 percent from payments for goods and services, beginning in 2011, raises a number of serious concerns. Chief among these is that this withholding is based on revenues from government payments with no relationship to a company's taxable income. This will impinge on cash flows, needed for day-to-day operations, particularly for smaller companies. The costs to businesses and governments at all levels to administer this information and withholding requirement will be substantial and the process exceedingly complicated to implement. Since governments indirectly bear the burden of administrative costs of contractors, Section 511 will increase the cost of goods and services purchased by governments.

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 encourages tax compliance, but does not place undue burden on companies or federal, state, and local government agencies. In light of our significant concerns about the current law, we believe that repeal of the withholding tax followed by promulgation of increased information reporting regulations for federal payments would provide a sensible and effective means of improving compliance.

As you work to improve taxpayer compliance, we look forward to being an active partner in the discussion. We appreciate your attention to the significant problems with the 3-percent withholding provision and look forward to working with you to develop a solution.

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

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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 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