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United States Senate
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COMMITTEES
APPROPRIATIONS
ENERGY AND NATURAL RESOURCES
SPECIAL COMMITTEE ON AGING
CHAIRMAN
VETERANS' AFFAIRS

March 13, 2007

Cosponsor the Withholding Tax Relief Act of 2007

Dear Colleague:

Recently, I introduced S. 777, the Withholding Tax Relief Act of 2007, which would repeal Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005. Section 511, inserted in conference as a last-minute \$7 billion revenue-raiser, imposes a sweeping new 3 percent tax withholding on all government payments for products and services made by the Federal government, State governments, and local governments with expenditures of \$100 million or more. I urge you to cosponsor S. 777 and help repeal this unfair tax penalty on government contractors.

Section 511 will not close the tax gap as proponents of the provision argue. Section 511 is estimated to "increase" revenue by \$7 billion from 2011 to 2015, but raises \$6 billion of that amount due solely to accelerated tax receipts and not an actual revenue increase from improved tax compliance. It generates only \$215 million in 2012 and increases slightly in each of the three years thereafter – hardly the \$290 billion annual tax gap the Internal Revenue Service (IRS) estimates. Further, Section 511 is based on revenues from government payments with no relationship to a company's taxable income. It hurts honest taxpaying businesses without providing any additional enforcement mechanisms for tax delinquents.

Section 511 will impose significant burdens on businesses. Although proponents of Section 511 call the 3 percent rate "low" and "conservative," in most cases, businesses make substantially less than a 3 percent profit on their contracts and sometimes, turn no profit at all. Section 511 will effectively withhold entire paychecks – interest free – thereby impeding the cash flow of small businesses, eliminating funds that can be used for reinvestment, and forcing companies to pass on the added costs to customers.

Section 511 will impose significant administrative costs on the Federal, State, and local governments. The cost to the Federal, State, and local governments to administer and implement Section 511 will be substantial. The Congressional Budget Office (CBO) called the provision an unfunded mandate on State and local governments because its expected costs exceed the allowable \$50 million annual threshold.

Section 511 negatively impacts nearly every sector of the economy – from health care and technology to building and transportation – and there are already discussions of expanding the provision's reach and accelerating its effective date. Section 511 is the start of years of bad tax policy and should be repealed.

To cosponsor S. 777, please contact Lisa McGrath at 4-1009.

Sincerely,


LARRY E. CRAIG
United States Senator

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Government Withholding Relief Coalition

March 12, 2007

The Honorable Larry Craig
United States Senate
Washington, DC 20510

Dear Senator Craig:

The Government Withholding Relief Coalition and its member organizations strongly support your legislation, S. 777, which would repeal a sweeping new requirement mandating that federal, state, and local governments withhold 3 percent from payments from goods and services.

S. 777 would repeal section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 that enacted the withholding provision. This new requirement affects all government contracts as well as other payments, such as Medicare, grants, and farm payments. We are deeply concerned about the potentially negative impact on all companies receiving contract payments or other forms of payment from all levels of government.

In particular, the withholding is based on revenues from government payments with no relationship to a company's taxable income and therefore will impinge on cash flows needed for day-to-day operations. In addition, the administrative costs to businesses and governments at all levels will be substantial and the process complicated to implement.

The Government Withholding Relief Coalition and its member organizations appreciate your leadership on repealing the Section 511 withholding requirements and look forward to working with you and Congress to pass S. 777.

Sincerely,

Government Withholding Relief Coalition

Coalition Members Include: 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 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, Government Finance Officers Association, Independent Electrical Contractors, Inc., Information Technology Association of America, International City/County Management Association, International Foodservice Distributors Association, Management Association for Private Photogrammetric Surveyors, Mason Contractors Association of America, National Association for Self-Employed, National Association of Counties, 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, 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, The National Association of State Auditors, Comptrollers, and Treasurers, U.S. Chamber of Commerce, United States Conference of Mayors, United States Telecom Association, and Women Impacting Public Policy.