

LARRY E. CRAIG  
IDAHO

HART SENATE OFFICE BUILDING  
(202) 224-2752  
FAX (202) 228-1067  
TTY (202) 224-9377

<http://craig.senate.gov>

## United States Senate

WASHINGTON, DC 20510-1203

September 19, 2006

### COMMITTEES

APPROPRIATIONS  
ENERGY AND NATURAL RESOURCES  
SPECIAL COMMITTEE ON AGING  
CHAIRMAN  
VETERANS' AFFAIRS

## Help Repeal the Unfair Tax Penalty on Government Contractors Cosponsor S. 2821, the Withholding Tax Relief Act of 2006

Dear Colleague:

Recently, I introduced S. 2821, the Withholding Tax Relief Act of 2006, which would repeal Section 511 of the Tax Increase Prevention and Reconciliation Act of 2006 (P.L. 109-222 :: H.R. 4297). Section 511 imposes a sweeping new 3 percent tax withholding on all payments made by the Federal, State, and local governments. I urge you to cosponsor S. 2821 and help repeal this unfair tax penalty on government contractors.

Section 511, inserted in conference as a last-minute \$7 billion revenue-raiser, requires tax withholdings at a rate of 3 percent 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. It affects payments for goods and services under government contracts and payments to any person for a service or product provided to a government entity – for example, Medicare and certain grants – beginning in 2011.

**Section 511 will not close the tax gap** – estimated to be \$345 billion in 2001 – 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. Section 511 is based on revenues from government payments with no relationship to a company’s taxable income and therefore unrelated to any tax liability. 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 withholding 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 in the business, and forcing companies to pass on the added costs to customers or finance the additional amount.

**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.

SUITE 530  
225 NORTH 9TH STREET  
BOISE, ID 83702  
(208) 342-7985

HARBOR PLAZA  
610 HUBBARD, SUITE 121  
COEUR D'ALENE, ID 83814  
(208) 667-6130

SUITE 106  
313 D STREET  
LEWISTON, ID 83501  
(208) 743-0792

SUITE 290  
275 SOUTH 5TH AVENUE  
POCATELLO, ID 83201  
(208) 236-6817

SUITE A  
560 FILER AVENUE  
TWIN FALLS, ID 83301  
(208) 734-6780

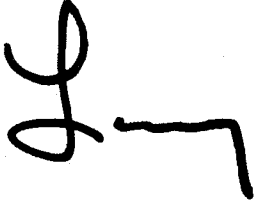
SUITE 101  
490 MEMORIAL DRIVE  
IDAHO FALLS, ID 83402  
(208) 523-5541

Visit <http://craig.senate.gov/joinenews/> to sign up for eNEWS, my bi-weekly electronic newsletter.

**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. Section 511 is the start of years of bad tax policy and should be repealed.

To cosponsor S. 2821, please contact Lisa McGrath at 4-1009.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Craig". The signature is stylized with a large initial "L" and a horizontal line extending to the right.

LARRY E. CRAIG  
United States Senator

## **Organizations Supporting S. 2821, the Withholding Tax Relief Act**

Aerospace Industries Association  
Air Transport Association  
American Congress on Surveying and Mapping  
American Council of Engineering Companies  
America's Health Insurance Plans  
American Institute of Architects  
American Road & Transportation Builders Association  
American Shipbuilding Association  
American Trucking Associations  
Associated Builders and Contractors  
Associated General Contractors of America  
Coalition for Government Procurement  
Construction Management Association of America  
Contract Services Association  
Council of State Governments  
Edison Electric Institute  
Electronic Industries Alliance  
Federation of American Hospitals  
Financial Services Roundtable  
Financial Executives International Committee on Taxation  
Information Technology Association of America  
Management Association for Private Photogrammetric Surveyors  
Mason Contractors Association of America  
National Association for the Self-Employed  
National Association of Counties  
National Association of Credit Management  
National Association of Manufacturers  
National Association of State Auditors, Comptrollers and Treasurers  
National Defense Industrial Association  
National Electrical Contractors Association  
National Federation of Independent Business  
National Governors Association  
National Italian-American Business 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  
National Roofing Contractors Association  
The Design Professionals Coalition  
Small Business & Entrepreneurship Council  
Small Business Legislative Council  
U.S. Chamber of Commerce  
USTelecom Association  
Women Impacting Public Policy