

Government Withholding Relief Coalition

January 28, 2011

The Honorable Darrell E. Issa
Chairman, Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

Re: Regulations and Their Impact on the Economy and Jobs

Dear Chairman Issa:

The Government Withholding Relief Coalition and its 116 member associations appreciate your interest in regulations that negatively impact the economy and jobs. We welcome the opportunity to highlight one specific issue that was the genesis for the creation of this coalition: the 3% tax withholding mandate. This requirement is set to go into effect on January 1, 2012 if it is not repealed. It will cost jobs and waste significant amounts of time and money for companies as well as governments to implement.

The 3% withholding law, which was enacted in Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) as section 3402(t) of the Internal Revenue Code, mandates that federal, state, and local governments withhold 3% of nearly all of their contract payments, Medicare payments, farm payments, and certain grants. Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sectors, with a disproportionate impact on small businesses.

The Internal Revenue Service (IRS) issued a proposed rule in December 2008 and is scheduled to issue a final rule to implement this counterproductive law in the near future. However, this is just the beginning of the regulations that need to be altered and issued. The Federal Acquisition Regulations (FAR) will need to be changed, and regulations for Medicare payment, farm payments, and grants will also need to be modified. These are merely the federal regulations that will need to be changed, but since this requirement flows down to state and local governments (as an unfunded mandate), every state and many city, county, and municipal governments will need to change their regulations and companies will have to learn to comply with these numerous and likely divergent implementing regulations.

The provision is already proving costly and will increase exponentially as the implementation deadline moves closer. If this tax is not repealed, it will cost companies and governments at all levels substantial amounts of money. These exorbitant expenditures will be at the expense of hiring new employees, expanding businesses, and providing government services at a time that neither the public nor private sector can absorb such unnecessary costs.

The Department of Defense in April 2008 estimated that it would cost more than \$17 billion in the first five years to comply with the 3% withholding requirement, which far exceeds any estimated revenue gains due to tax compliance. While this estimate may be reduced depending on how the law is implemented, needless to say, the costs will be huge across all levels of government.

The Coalition believes this law and its corresponding regulations are a prime example of wasteful requirements that have a negative impact on the economy and job-creation. As you develop your agenda,

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we strongly urge you to consider the damaging effects of the 3% withholding tax and include its repeal among your priorities for this year.

Sincerely,

Government Withholding Relief Coalition

- Aeronautical Repair Station Association
- Aerospace Industries Association
- Air Conditioning Contractors of America
- Air Transport Association
- America's Health Insurance Plans
- American Bankers Association
- American Clinical Laboratory Association
- American Concrete Pressure Pipe Association
- American Congress on Surveying and Mapping
- American Council of Education
- American Council of Engineering Companies
- American Health Care Association
- American Institute of Architects
- American Logistics Association
- American Moving and Storage Association
- American Nursery and Landscape Association
- American Road & Transportation Builders Association
- American Society of Civil Engineers
- American Subcontractors Association
- American Supply Association
- American Traffic Safety Services Association
- American Trucking Associations
- Armed Forces Marketing Council
- Associated Builders and Contractors
- Associated Equipment Distributors
- Association of National Account Executives
- Association of School Business Officials International
- Business and Institutional Furniture Manufacturers Association
- California Association of Public Purchasing Officers
- Coalition for Government Procurement
- Colorado Motor Carriers Association
- Computing Technology Industry Association
- Construction Contractors Association
- Construction Employers' Association of California
- Construction Industry Round Table
- Construction Management Association of America
- Design Professionals Coalition
- Edison Electric Institute
- Electronic Security Association
- Engineering & Utility Contractors Association
- Federation of American Hospitals
- Financial Executives International's Committee on Government Business
- Financial Executives International's Committee on Taxation
- Finishing Contractors Association
- Gold Coast Hispanic Chamber of Commerce
- Government Finance Officers Association
- Independent Electrical Contractors, Inc
- International City/County Management Association
- International Council of Employers of Bricklayers and Allied Craftworkers
- International Foodservice Distributors Association
- International Municipal Lawyers Association
- Management Association for Private Photogrammetric Surveyors
- Mason Contractors Association of America
- Mechanical Contractors Association of America
- Medical Group Management Association
- Messenger Courier Association of the Americas
- Miami Dade County
- Modular Building Institute
- Munitions Industrial Base Task Force
- National Asphalt Pavement Association
- National Association for Self-Employed
- National Association of College & University Business Officers
- National Association of Counties
- National Association of Credit Management
- National Association of Educational Procurement

- National Association of Government Contractors
- National Association of Manufacturers
- National Association of Minority Contractors
- National Association of State Auditors, Comptrollers and Treasurers
- National Association of State Chief Information Officers
- National Association of State Procurement Officials
- National Association of Wholesaler-Distributors
- National Beer Wholesalers Association
- National Corn Growers Association
- National Council for Public Procurement and Contracting
- National Defense Industrial Association
- National Electrical Contractors Association
- National Electrical Manufacturers Association
- National Emergency Equipment Dealers Association
- National Federation of Independent Business
- National Institute of Governmental Purchasing
- National Italian-American Business Association
- National League of Cities
- 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 Utility Contractors Association
- National Wooden Pallet and Container Association
- North-American Association of Uniform Manufacturers & Distributors
- North Coast Builders Exchange
- Office Furniture Dealers Alliance
- Oregon Trucking Association
- Plumbing-Heating-Cooling Contractors – National Association
- Printing Industries of America
- Professional Services Council
- Regional Legislative Alliance of Ventura and Santa Barbara Counties
- Santa Rosa Chamber of Commerce
- Security Industry Association
- Service Disabled Veteran Owned Small Business Council
- Sheet Metal and Air Conditioning Contractors National Association, Inc.
- Shipbuilders Council of America
- Small Business & Entrepreneurship Council
- Small Business Legislative Council
- TechAmerica
- Textile Rental Services Association of America
- The Associated General Contractors of America
- The Association of Union Constructors
- The Distilled Spirits Council of the U.S.
- The Financial Services Roundtable
- U.S. Chamber of Commerce
- United States Telecom Association
- Veterans Entrepreneurship Task Force
- Women Impacting Public Policy