



News From:

COMPTROLLER KEVIN LEMBO

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COMPTROLLER LEMBO SEEKS REPEAL OF FEDERAL ANTI-BUSINESS LAW THAT DELAYS FULL PAYMENTS TO NEARLY 3,000 STATE VENDORS

Comptroller Kevin Lembo, joined by business and municipal leaders today, urged Connecticut's congressional delegation to repeal a provision of federal law that will force the state to partially withhold payments to companies that do business with Connecticut.

Approximately 3,000 companies that do business with the state will be deprived prompt full payment for services after the provision is implemented early next year.

Lembo said the "Tax Increase Prevention and Reconciliation Act of 2005" will require Connecticut and certain municipalities to withhold 3 percent on payments to vendors for property and services in an effort to combat underpayment of taxes by some government vendors -- but the provision ultimately harms all businesses in the process.

If implemented during 2010, the law would have forced the state to withhold \$170 million from businesses -- money that could otherwise be reinvested by companies in jobs and other economic benefits.

"Connecticut businesses depend on -- and deserve -- prompt payment for their services," Lembo said. "This law delays full payments to state employers -- jeopardizing jobs and cash flow for thousands of businesses at the worst possible economic time. Depriving Connecticut companies of full payments, in good or bad economic times, is unacceptable.

"At a time when both the public and private sectors are experiencing challenging fiscal constraints, implementation of this law, although well-intended, will place additional undue financial and administrative burdens on state and local governments and the business community."

Lembo said the law also burdens state and local taxpayers because implementing the withholding procedures will require significant funding, resources and logistics. It will force states and certain municipalities to hire additional staff, purchase new software and/or modify accounting systems.

Hartford Mayor Pedro E. Segarra said, "This policy change is both short-sighted and poorly timed. It will result in increased costs and create serious cash flow problems, especially for small businesses. The most damaging consequence will be that local and minority-owned businesses will be deterred from bidding on city contracts, meaning that municipalities will be hamstrung by lower competition among fewer vendors."

Bridgeport Mayor Bill Finch said, "I'm joining our comptroller in urging Senators Blumenthal and Lieberman and U.S. Rep. Himes to push for the repeal of Section 511 of the Tax Increase Prevention and Reconciliation Act (TIPRA), which is currently up for consideration in the Senate and the House. This portion of the TIPRA while well-intended, would cause undue hardship to a city that's already mining every possible avenue for savings, and would instead, require us to potentially hire additional staff, or modify our accounting systems in order to keep track of these funds.

"More importantly, this piece of legislation would also put small and minority businesses at a disadvantage in bidding for government contracts due to their limited capital reserves. We've spent a lot of time helping small, minority and women-owned businesses to grow and thrive in this challenging economy. This puts a roadblock in the way of their remaining competitive with other larger, more well-established businesses. I join with my fellow mayors in calling on our federal legislators to repeal this 3 percent withholding measure."

In a letter sent today, Lembo urged Connecticut's congressional delegation to support repeal of the provision, Section 511 of the Tax Increase Prevention and Reconciliation Act (TIPRA) of 2005.

Congress rightfully deferred the provision by one year through the American Recovery and Reinvestment Act (ARRA) – but Lembo said full repeal is necessary to protect businesses and taxpayers.

Lembo said the law threatens businesses, consumers and taxpayers because:

- businesses will likely pass the 3 percent withholding costs on to consumers through price increases;
- small businesses will be at a competitive disadvantage in bidding for government contracts due to limited capital and reduced competition in the marketplace;

- competition for government contracts will decrease because vendors will focus on the private sector market to avoid the 3 percent withholding;
- municipalities with \$100 million or more in annual vendor payments, many of which have antiquated vendor payment systems, do not have the capacity to handle the required withholding;
- administering the new withholding procedures and reporting required information to the IRS will increase labor and related costs; and
- challenges in reconciling payments with withholding will increase the likelihood of overpayments and duplicate payments, as well as costs associated with correcting them.

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