

Chairman Sam Graves



***In Case You Missed It...***

**POLITICO**

**[Repeal 3% withholding of small-business payments](#)  
**[Stop punishing small businesses](#)****

By: Rep. Sam Graves and Rep. Mick Mulvaney  
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Imagine you own a business that puts a new roof on the local high school. After you do the work, the school pays only 97 percent of what it owes you. Why? On the off chance you may not pay your federal taxes.

The policy is such a bad idea that when it was enacted in 2006, Congress immediately delayed its implementation for five years. Then, the American Recovery and Reinvestment Act of 2009 deferred the effective date to Dec. 31, 2011. Now, the Internal Revenue Service has delayed it until Dec. 31, 2012.

The supposed intent of this provision is to help close the “tax gap” — the difference between what the IRS thinks everyone owes and what is actually collected each year. Punishing law-abiding small-business owners is not the way to go.

Instead of forcing small businesses to give the government an interest-free loan for more than a year, efforts to close the tax gap should target those who fail to pay taxes.

If the law goes into effect, it could impose significant, unnecessary financial burdens on both the public and private sectors. It particularly hurts small businesses — our nation’s No. 1 job creators.

To some, 3 percent may not sound like much. However, many small-business government contractors work for less than a 3 percent profit margin — which is a great deal for taxpayers. Withholding 3 percent of their payments may force some of these companies out of the public-sector market — or out of business entirely.

This can result in a loss of jobs, a loss of competition and higher costs to taxpayers.

The lack of cash flow would force many contractors to wait until the end of the year, or longer, to recoup expenses — much less take home any profit. Also troubling is the possibility that government contractors

will not have the funds to pay their subcontractors during a project and will instead have to find outside financing just to complete the contract.

During a [recent House Small Business Committee hearing](#), small-business owner Ian Frost, of Mechanicsville, Va., testified about the problems created.

“This 3 percent withholding,” Frost said, “would essentially be a loan to the government for the year until our taxes are filed. Worse still, it might require our company to secure a loan to help us cover operating expenses at a time when cash in the bank is limited. The withholding could limit our ability to make payroll each month and limit our use of our profits to give bonuses to our employees, expand our business and hire new employees.”

In addition to the problem for the private sector, implementation of the mandate may be extremely costly to already strained federal, state and local governments.

“Who will ultimately bear the cost of this new requirement?” Curtis Loftis, treasurer of South Carolina, testified at a recent hearing, “The taxpayer. Coupled with administrative costs, many believe that vendors may be inclined to increase their prices to governmental entities to compensate for this penalty tax in order to minimize their revenue losses. ... As a result, taxpayers will be forced to pay more. This withholding provision would place an unfair burden on state and local governments during a time when they’re already facing serious budget challenges.”

Compliance with the provision would cost the Defense Department more than \$17 billion for the first five years, according to a Defense Department study. Expected governmentwide revenue is only \$6.9 billion for the same period.

In other words, this provision costs one agency more than it saves the entire government. That doesn’t even cover the costs to other federal agencies, states or local governments.

The 3 percent withholding provision would devastate small-business owners and cost taxpayers more money for implementation. But continuing to defer the onerous withholding would be just as damaging.

This is why it must be repealed now. Repealing instead of deferring can give small-business owners the confidence they need to expand their business and create jobs without wondering whether they will be burdened by another lose-lose proposition from Washington.

In a struggling economy filled with uncertainty because of the continued threat of tax increases, regulations and mandates from the Obama administration, swift bipartisan repeal of the 3 percent withholding provision is key. The last thing our job creators need is another unfunded government mandate to weigh them down, stifle growth and kill jobs.

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