

Government Withholding Relief Coalition

May 19, 2010

President Barack Obama
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

The Government Withholding Relief Coalition and its member organizations strongly urge you to advocate for repeal of the 3% tax withholding law this year. This 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. The Coalition stands ready to work with you, your Administration, and Congress to improve tax compliance for companies and other entities receiving federal dollars while also repealing the onerous 3% withholding tax.

Your Administration recently proposed two new tax compliance initiatives and Congress is actively considering another (Section 403 of H.R. 5013). These follow numerous other legislative and regulatory measures from the last four years focused on enhancing transparency in government contracting and, in particular, increasing tax compliance by companies and individuals that receive government payments. All these initiatives taken together obviate any rationale or need for retaining the withholding mandate and will be far more cost-effective for the government. The enclosure with this letter includes a list and summary of these new initiatives that enhance transparency and increase tax compliance.

These measures and proposals directly address the legitimate concerns about tax-delinquent government contractors and other entities receiving federal payments. They are a much better approach than the costly, broad brush mandate of the 3% withholding law. While the withholding requirement is not scheduled to go into effect until January 1, 2012, it is already proving costly, and such costs will increase exponentially as the implementation deadline moves closer. Businesses – the vast majority of which do not have tax delinquencies – and governmental entities are expending resources now in preparation for implementation due to major system and process changes needed for withholding, reporting, and reconciling the millions of affected payments annually. These have to be made well in advance of 2012. As an example of the implementation costs, in a 2008 report the Department of Defense estimated that it would cost the Department more than \$17 billion in the first five years to comply with the 3% withholding requirement, which is far more than any expected revenue gains due to an increase in tax compliance.

Both the public and private sector need repeal as soon as possible to minimize the waste of precious funds and resources. The public comments and the records from the public hearing for the Internal Revenue Service rulemaking proceeding to implement the 3% requirement is replete with statements by the full range of affected private and public sector entities attesting to the law's staggering costs and administrative burdens. At a time of severe economic constraints, implementation of this requirement comes at the expense of government services, jobs, and investment in economic recovery.

We strongly believe that private entities providing goods and services to the government should comply with federal, state, and local tax requirements. Companies that do not comply have an unfair competitive advantage over law-abiding contractors that pay their taxes. However, withholding on every government payment is not a viable or cost efficient answer. The enclosed initiatives demonstrate more reasonable approaches to ensure tax compliance, without placing undue costs and burdens on private sector companies or on federal, state, and local government agencies.

For these reasons, the Coalition believes the concepts behind the provisions in the enclosure represent a more measured, responsible approach to accomplishing the aims of the 3% withholding law without the enormously costly and resource-intensive efforts necessary to comply with it. We look forward to being an active partner in supporting cost-effective means to increase tax compliance while repealing the 3% tax withholding law.

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 Shipbuilding 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
- 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
- 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
- National Association for Self-Employed
- National Association of Counties
- National Association of Credit Management
- 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 Procurement Officials
- National Association of Wholesaler-Distributors
- National Beer Wholesalers Association
- National Corn Growers Association
- 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
- Sheet Metal and Air Conditioning Contractors National Association, Inc.
- 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
- Veterans Entrepreneurship Task Force
- Women Impacting Public Policy

Cc: Ms. Valerie Jarrett
 Ms. Cecilia Munoz
 Mr. Michael Blake