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Government Withholding Relief Coalition

January __, 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 This requirement is set to go into effect on January 1, 2012 if it is not repealed beforehand. 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.

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, but since this requirement flows down to the state and local governments (as an unfunded mandate), every state and many city, county, and municipal governments will need to change their regulations as well 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 If this tax is not repealed, it will cost companies and governments at all levels substantial amounts of money.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 handle 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, we strongly urge you to include consideration of the damaging effects and the need for repeal of the 3% withholding tax in your priorities this year.

Sincerely,

Government Withholding Relief Coalition