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June 2, 2011

House Small Business Committee
2361 Rayburn House Office Building (RHOB)
Attn: Chairman Sam Graves
Washington, D.C. 20515

Statement for the Record
The Coalition for Government Procurement
Before the House Committee on Small Business, Subcommittee on
Contracting and Workforce
To Amend the Internal Revenue Code of 1986 to Repeal the Imposition
of 3 Percent Withholding on Certain Payments Made to Vendors by
Governing Entities,
H.R. 674

Mr. Chairman and Members of the Subcommittee.

The Coalition for Government Procurement ("Coalition") appreciates the opportunity to comment in support of H.R. 674 and the repeal of the tax withholding requirement of Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005. The Coalition commends the Subcommittee on Contracting and Workforce for holding a hearing on this important issue.

The Coalition for Government Procurement is a non-profit association of approximately 300 firms selling commercial services and products to the Federal Government. Coalition members include small, medium and large business concerns, all of which in most contexts would be subject to the withholding. The Coalition is proud to have worked with government officials over the past 30 years towards the mutual goal of common sense acquisition. Moreover, our common sense approach has led us to join a united effort as a member of The Government Withholding Relief Coalition. In addition to comments from The Government Withholding Relief Coalition, we would like to reemphasize a couple of key points.

Section 511 requires a 3% tax withholding on all government payments for goods and services made by federal, state, and local governments with annual expenditures of \$100 million or more for payments of \$10,000 or greater. The final IRS rule, states that contracts

awarded after December 31, 2012 will be subject to the withholding. 26 C.F.R. § 31.3402(t) (2011). The withholding represents vital financing for contract payments, Medicare payments, farm payments, and certain grants. Additionally, the IRS has made notice of a proposed rule that the 3% withholding should be subject to all contracts beginning January 1, 2014, which will include contracts entered into before the enactment of the law.

Compliance with the 3% withholding will unduly burden both the public and private sectors, as both sectors will have to make significant changes to their financial systems. Given the sweeping scope of the law covering both government and industry, implementation costs will substantially outweigh any possible savings.

An example of the potential for a broad detrimental impact is illustrated by a 2008 Department of Defense (“DoD”) report. DoD has estimated costs of administration to be \$17 Billion over the first 5 years for that agency alone.¹ Although this number is less than originally expected, the DoD still anticipates the impact to be significant and in the billions of dollars. In addition to the impact on the DoD, the costs would be spread and multiplied to other civilian agencies, states, counties, cities, municipalities, as well as the contractor community.

The burdens of compliance will also harm the private sector. The 3% withholding will impact the cash flow of all business, but particularly small business as the often run on narrow margins of revenue. Their day to day operations will also be affected by the withholding. In addition, businesses will be forced to develop new internal systems to account for withholdings. The cost of implementing these accounting systems will be magnified for small businesses as they lack the resources to absorb the increasing costs of compliance.

The reduction in revenue and the increased costs negatively affects small, medium, and large businesses and in turn the overall health of the economy. The impact on the small businesses of America will be especially significant as they represent the great engine of our economy, as well as the main source of job creation.

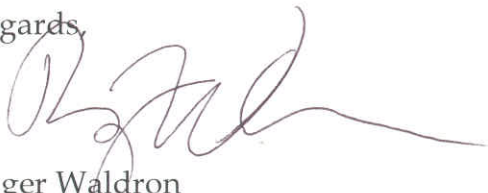
It is vital that the repeal take place now. Merely delaying the implementation creates an environment of uncertainty and

¹ 2008 Department of Defense Report on the Impacts of Compliance with Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005.

unpredictability. The rule is already costing industry as prudent businesses are making investments in order to comply. This is a financial investment that could be going towards job creation rather than job destruction.

The Coalition supports H.R. 674 and appreciates the opportunity to comment. If you have any questions, I am available at (202) 315-1051 or rwaldron@thecgp.org.

Regards,

A handwritten signature in black ink, appearing to read 'RWaldron', with a long horizontal flourish extending to the right.

Roger Waldron
President