# Government Withholding Relief Coalition

**Repeal Section 511 of Tax Reconciliation Act (P.L. 109-222)**

**Summary of Section 511:**
It mandates that federal, state, and local governments withhold 3 percent from payments for goods and services.

- Requires a "tax" withholdings at a rate of 3% on all government payments for products and services made by the federal government, state governments, and local governments with expenditures of $100 million or more
- Impacts payments under government contracts as well as Medicare payments, Farm payments, and grants to for-profit companies (i.e. Invoice for $100, government only pays $97)
- The 3% withheld is allocated toward the company or individual's tax liability
- Applies to all payments starting in 2012 (change made from 2011 to 2012 in P. L. 111-5, the Economic Stimulus bill)
- Imposes significant administrative costs and information reporting requirements on governments and companies
- Three primary areas for additional costs: 1) financing costs due to the decreases in cash flow, 2) annual recurring costs for additional employees, and 3) capital investments to modify financial systems
- Estimated to "increase" revenue by $7 billion from 2011 to 2015, but "raises" $6 billion of that amount in 2011 solely due to accelerated tax receipts and not an actual revenue increase from improved tax compliance
- Generates only $215 million in 2012 and increases slightly in each of the next three years thereafter. DoD estimated costs to be $17 Billion over the first 5 years for DoD alone.

**Genesis:**
This far-reaching new requirement was inserted as a last-minute revenue raiser into the *Tax Reconciliation Act of 2005* that was signed by the President in May 2006. While supporters argue that imposing withholdings on payments made by Federal, State and local governments will improve taxpayer compliance and reduce the tax gap, this is a withholding on all payments with no relationship to a company's tax liability and doesn't take into account the true ramifications of the requirement.

**Ramifications:**
There will be a large number of harmful consequences if the provision is not repealed. The provision hurts honest taxpaying businesses while it attempts to find tax delinquents by essentially forcing companies to provide the federal government with an interest-free loan. The 3% withholding significantly affects companies' cash flows. This new requirement is based on revenues from government payments with no relationship to a companies' taxable income. Companies will lose vital funds needed to operate day-to-day activities and will be forced to pass along the added costs to customers or finance the additional amount.

In addition, the costs to Federal, State, and local governments to administer the program will be substantial and the process complicated to implement. The Congressional Budget Office reported that the withholding provision is an unfunded mandate on state and local governments because it exceeds the allowable $50 million annual threshold.

**Legislative Change Needed:**
Congress should repeal Section 511 of P.L. 109-222 as soon possible.