



Repeal 3% Government Withholding Provision

The withholding provision, which was enacted as part of the *Tax Increase Prevention and Reconciliation Act of 2005 (Section 511)*, requires federal, state and local governments to withhold three percent on payments made for most goods and services. With an impending implementation date of January 1, 2012 and the lack of final regulations issued from the U.S. Department of Treasury, this provision is of the utmost importance and urgency to state and local governments. Compliance with this law will impose significant, unnecessary financial burdens on both the public and private sectors.

This troubling provision will cause state and local governments to direct scarce resources on implementation at a time when those same resources are desperately needed to carry out important government programs and maintain balanced budgets. State and local governments face unique challenges in preparing to implement Section 511, as the sophistication of systems necessary to capture and report the required data vary greatly between governments and most entities do not have the resources, capacity or staff to undertake the required withholding and remittance. In light of the current state and local government fiscal situation, the costs to purchase or retrofit existing payment and procurement systems are particularly concerning. Additionally, state and local governments cannot withstand an increase in the cost of goods and services that will likely result when private sector companies pass along the three percent withheld as a cost of doing business.

This is an unfunded and burdensome mandate on businesses, state and local government. State and local government are not responsible for enforcing federal tax compliance, which is a function of the IRS. The Department of Defense estimates that it will cost the agency over \$17 billion over the first five years, which is more than the savings that is being claimed by the cost estimates. When you add state and local government cost, this is a waste of taxpayer dollars. The federal government has already implemented several other legislative and regulatory schemas to address issues with tax compliance and transparency by companies receiving government payments.

Recommendation: NASCIO urges to co-sponsor and vote for either H.R. 674, S 89 and S164 to repeal Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222).

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