

Rep. Herger

Thank you for your February 16th testimony to the Committee on Ways and Means at its hearing on the President's Fiscal Year 2012 Budget Proposal. In order to complete our hearing record, I would appreciate your response to the following questions:

Beginning on January 1, 2012, government agencies at the federal, state, and local level will be required to withhold 3% of all payments to contractors and vendors as a tax enforcement measure. This 3% withholding tax will allegedly raise some \$10 billion over the next decade, but a 2008 Department of Defense study found that the provision will cost DoD alone more than \$17 billion to implement. That's in addition to other federal agencies that have their own contractors, not to mention the cost to the IRS to track and process all of these new withholding taxes. I have introduced legislation to repeal the 3% withholding tax.

Are you aware of any efforts to estimate the costs this withholding requirement will impose government-wide? Would you agree that it doesn't make much sense to enact taxes that cost more to collect than they raise in revenue?

The Administration does not have an official cost estimate for the full implementation at this time. However, because of the complexities of this provision, agencies have been conducting preparatory analysis of agency financial systems, payment processes, and contract award procedures associated with implementation while awaiting the issuance of a final regulation by Treasury.

Given the significant implementation challenges identified with the 3% withholding requirement, to include a method for identifying and designating in the financial systems individual payments subject to the withholding, the Administration would consider a delay to help implement the requirement so long as it were fully paid for.