



GC Newsletter

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3% TAX WITHHOLDING LEGISLATION

Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) mandates that with all payments beginning after December 31, 2010, federal, state and local governments withhold as tax 3 percent of all payments to contractors for goods and services. This provision was enacted due to a concern that some federal contractors were not complying with their tax obligations. It does not apply to State and local government contracting expenditures of less than \$100 million or to classified contracts.

Legislation was introduced into the Senate (S. 2821) on May 17, 2006 and into the House of Representatives (H.R. 6242) on September 28, 2006 to repeal this imposition of withholding. The Senate Bill was referred to the Committee on Finance and the House Bill was referred to the House Committee on Ways and Means. No further action has been taken on either bill. On January 4, 2007, the Small Business Tax Fairness and Simplification Act of 2007 (H.R. 46) was introduced into the House of Representatives requesting that small businesses not be subject to this tax withholding.

While December 31, 2010 may seem a long way off it is not. Many currently existing contracts may overlap this date and it the legislation relates to payments not contract awards. We request that you voice your opinion on these legislative actions by contacting the Government Withholding Relief Coalition (www.uschamber.com), the Coalition for Government Procurement (www.thecgp.org) and/or your Congress person.



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