



**MANDATORY 3% WITHHOLDING
TAX ON GOVERNMENT PROJECTS**



Background: Beginning January 1, 2011, Section 511 of the Tax Reconciliation Act (P.L. 109-222) requires that federal, state, and local governments with expenditures of \$100M or more withhold 3 percent from payments for goods and services as a guard against possible business tax invasion.

Defeated Attempt at Acceleration of Implementation Date: Just before the end of the Congressional session in December 2006, Rep. Joe Barton (R-TX), along with other Members of Congress, attempted to advance Section 511's implementation date from 2011 to 2007 to help "pay for" a rural schools' initiative. His proposed amendment would have meant that all contracts entered into with the federal government in 2007 would have had 3 percent of the entire cost of the contract withheld. However, aggressive industry lobbying by the FCA and other Coalition members beat back this last-minute attempt—for now!

COST Coalition's Actions: FCA, working with its partners within the Construction Organizations for Sensible Taxation (COST) Coalition, was able to stop the effort to speed up implementation, but our next step must be a continued educational outreach to ensure all Members of Congress understand the negative impact this law imposes on construction contracting, cash flow, and the ability of contractors to pay for the products and services necessary to complete a contract.

FCA worked aggressively on this attempt to accelerate the implementation date:

- (1) Immediately sending a letter, signed by all 13 COST Coalition members, strongly opposing not only this amendment, but also the entire Section 511 and the 3% withholding tax provision, to the Senate Finance Committee Chairman Charles E. Grassley (R-IA) and Ranking Member Max Baucus (D-MT), with copies to Senate Majority Leader Bill Frist (R-TN), Senate Minority Leader Harry Reid (D-NV), and the Full Senate.
- (2) Simultaneously contacting all members of the House Budget and Ways and Means Committees to express our staunch opposition, particularly Chairman Jim Nussle (R-IA) and Ranking Member John Spratt (D-SC), as well as Chairman William Thomas (R-CA) and Ranking Member Charles B. Rangel (D-NY), respectively. We also sent a letter to all House members with the same message we sent to the Senate offices.
- (3) Constantly working with our key supporters within the House and the Senate to intercede on our behalf with their fellow Members of Congress in expressing opposition to this amendment.

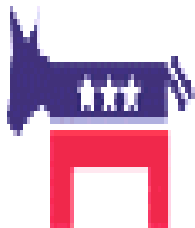
So What?

With the current budget restraints on Capitol Hill, there most likely will be more efforts to advance the implementation date—there's just too much of an interest-free loan hanging out there for Congress to pursue. It should be an interesting year in 2007!

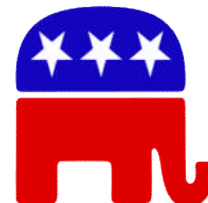
You can be sure we will be spending more time on this issue and others to advance the interests of the union contractors. We constantly have to act as watchdogs because, if we don't, Congress will at times try to pass last-minute legislation, such as almost happened with this zero-hour amendment.

Future Outlook?

We cannot act on your behalf without your ongoing support, particularly your active response to our calls for **Congressional Action**:



It's imperative for your voice to be heard loud and clear when we solicit calls for Congressional Action! In the past we have heard Members of Congress say: "How come we hear only from the associations' staffs and not directly from the contractors? Why have they not personally responded with specific facts on how pending legislation positively or negatively affects their businesses????"



The implication is clear: you, the contractors, need to be heard on Capitol Hill: not only from your association staff but also by picking up your phone and calling your Members of Congress or by writing and/or emailing them a letter that explains the impact of pending legislation on your businesses. And we too need to hear from you about how pending legislation favorably or unfavorably affects your businesses. Please email Jay Weaver (jweaver@finishingcontractors.org) with your comments and/or questions.

CONGRESSIONAL ACTION

A good test of your future commitment will be demonstrated during our upcoming **Campaign for Quality Construction: Legislative Issues Conference** in Washington, D.C. from May 1-3, 2007. You can be certain that Section 511 will be a major part of that agenda when we visit your Members of Congress.

Please mark your calendars now; more detailed information will be forwarded to you!