

THREE PERCENT WITHHOLDING PROVISION WON'T APPLY

There has been some confusion lately over whether or not municipalities in Vermont would be subject to a three percent federal withholding requirement on payments to all vendors beginning in 2012.

In taking another look at the issue, it appears that even if the new withholding requirement is implemented, municipalities in Vermont would not be affected. This is because the three percent is withheld only if a government entity processes more than \$100 million in gross receipts in a fiscal year.

Though implementation of the new requirement is almost four years away, opposition to it is building. Opponents point out that it would be onerous for those municipalities that do exceed the \$100 million floor because it applies to every single purchase, whether it is a \$3 ream of paper or a multi-million dollar infrastructure project.

The withholding requirement, passed by Congress in 2005's Tax Increase Prevention and Reconciliation Act (also known by the acronym TIPRA), was originally scheduled to be implemented in 2010. The U.S. House of Representatives passed a bill (H.R. 3056) this fall that would delay implementation until 2012. Yet another bill introduced in the House that would repeal the three-percent withholding requirement currently has more sponsors than votes eventually needed for passage. National organizations such as the National League of Cities and the Government Finance Officers Association support the move to repeal the withholding requirement.

The original intent of the requirement was to narrow the "tax gap" (the difference between what should have been paid in taxes and what was actually paid) between government contractors and the federal government. Current law requires contractors receiving any income that is not subject to income withholding requirements to make "estimated tax payments" which have been chronically underestimated.

The cost nationally for local and state governments to implement and administer the three percent withholding is estimated at \$62 million annually.

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