

**Opening Statement of
Senator Susan M. Collins**

Permanent Subcommittee on Investigations

**“Payroll Tax Abuse: Businesses Owe Billions
And What Needs To Be Done About It”**

July 29, 2008

Thank you, Chairman Levin and Ranking Member Coleman, for agreeing to hold a hearing on this important topic.

I find it deeply troubling that a small minority of businesses are consistently failing to remit the payroll taxes they withhold from their employees pay stubs, and are likewise failing to remit the employer’s portions of these taxes. As we all know, payroll taxes are the essential source of funding for two of the most important programs overseen by the federal government, Social Security and Medicare. Millions of Americans rely on the benefits these programs provide, and all Americans support these programs through our payroll tax deductions. We deserve to be completely confident that the deductions shown on our paystubs reflect payments actually remitted to the federal government, but as the GAO report released this morning indicates, that is not always the case. Instead, an estimated 1.6 million businesses are failing to remit \$58 billion annually in payroll tax deductions, creating a gap that must be filled by the General Fund. And that, of course, means that honest taxpayers must pay more.

In other ways, too, honest taxpayers are penalized when the dishonest cheat on their taxes. On a number of occasions, I have expressed my concern regarding the new 3 percent withholding tax on federal, state, and local government contracts for goods and services that is scheduled to go into effect in 2011. While I understand that this hearing is not about federal contractors, the 3 percent penalty illustrates the point, to my mind, of how the failure to ensure that everyone pays the taxes they owe will result in honest taxpayers bearing a higher burden. This should not be the case.

The GAO report has recommended a number of ways in which the IRS can increase tax compliance, and I understand that the IRS is prepared to accept those recommendations. I look forward to hearing the witnesses testimony this morning on this important topic.