



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

October 20, 2011  
(Senate)

## STATEMENT OF ADMINISTRATION POLICY

### S. 1726 – Withholding Tax Relief Act of 2011

(Sen. McConnell, R-Kentucky)

The Administration supports the intent of S. 1726 to repeal a three percent withholding on certain payments made to private contractors by Federal, State, and local government entities, but strongly objects to the bill's rescission of appropriated discretionary funds to pay for the repeal. The repeal of the withholding requirement in S. 1726 would reduce a burden on government contractors, who otherwise comply with their tax obligations, particularly small businesses. As most recently evidenced in the President's proposed American Jobs Act, released September 12, 2011, the Administration has supported alleviating this burden, which was originally enacted into law on May 17, 2006. The Administration also believes it is important to ensure that Federal contractors are compliant with tax laws and support more targeted efforts that prevent persons with outstanding tax debts from receiving Federal contracts. The effect of the repeal of the withholding requirement would be to avoid a decrease in cashflow to these contractors, which would allow them to retain these funds and use them to create jobs and pay suppliers. This would complement the Administration's other efforts to help small businesses. As well, this provision would reduce implementation costs borne by Federal and other governmental agencies.

However, the rescission of \$30 billion of appropriated funds runs counter to the spirit of two recent bipartisan agreements, including the recently-enacted Budget Control Act of 2011 (BCA). That Act has instituted spending caps that will cut annual Government spending by about \$1 trillion over the next ten years and, by the end of the decade, will bring discretionary spending to its lowest level as a share of the economy since the Eisenhower Administration. Disregarding the BCA agreement and cutting already-tight discretionary program levels even further, as this bill would do, would be a serious mistake. The bill's unspecified rescission of \$30 billion in appropriated funds would cause serious disruption in a range of services supported by the Federal Government. To further address the need to reduce the Federal deficit, the President has offered a detailed blueprint for more than \$3 trillion in additional deficit reduction. The Administration is committed to working with the Congress on a balanced approach to deficit reduction and is willing to work with the Senate to identify acceptable offsets for the budgetary costs associated with the repeal in S. 1726, including but not limited to ones that are in the President's detailed blueprint. If S. 1726 is presented to the President with the current offset, his senior advisors would recommend that he veto the bill.

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