THE REPUBLICAN STUDY COMMITTEE
Rep. Jim Jordan, Chairman
Paul Teller, Executive Director
RSC
202.226.9717
rsc.jordan.house.gov

Legislative Bulletin……………………………………..………October 27, 2011

Contents:

H.R. 674— To amend the Internal Revenue Code of 1986 to repeal the imposition of 3 percent withholding on certain payments made to vendors by government entities. (Herger, R-CA)

Order of Business: The bill is scheduled to be considered on Thursday, October 27, 2011 under a closed rule (H.Res. 448) that provides one hour of general debate equally divided and controlled by the Chair and Ranking Member of the Committee on Ways and Means. It also directs the Clerk of the House to combine this bill with the text of H.R. 2576 upon passage of both bills (so that the spending cuts in H.R. 2576 exceed the tax cuts in H.R. 674). For information on H.R. 2576 see the RSC Legislative Bulletin sent earlier today.

Impact of H.R. 674 and H.R. 2576 on the Budget: H.R. 674 cuts taxes by $11.2 billion over ten years. H.R. 2576 cuts spending by $21.7 billion over ten years and cuts taxes by $8.7 billion over ten years.

The net impact of the two bills on the federal budget:

- Tax cut of $19.9 billion over ten years;
- Spending cut of $21.7 billion over ten years; and
- Deficit reduction of $1.8 billion over ten years.

Summary: The legislation eliminates the 3 percent withholding requirement on payments made to vendors by all levels of government (federal, state, and local). This provision was enacted as part of the 2006 Tax Increase Prevention Act (P.L. 108-27). It was originally scheduled to go into effect at the beginning of this year, but has since been delayed until the beginning of 2013. CBO projects H.R. 674 will reduce revenues by $11.2 billion over ten years.

Additional Background: The Tax Increase Prevention Act of 2006 (which among other things extended the lower capital gains and dividend tax rates) included a 3% withholding requirement on payments made to contractors by all levels of government (federal, state, and local).

Proponents of repealing this tax provision note that it will cause governments to increase spending to modify payment systems. Further, the 3% withholding requirement reduces employers' cash flows, which harms job creation.

The 3% withholding requirement, originally set to take effect at beginning of 2011, was previously delayed as part of the "stimulus" and then by Administration rulemaking. It is currently set to take effect on January 1, 2013. This legislation repeals it permanently.

Committee Action: The legislation was introduced on February 11, 2011 and referred to the House Ways and Means Committee. The full committee ordered the bill to be reported by voice vote on October 13, 2011.

Administration Position: The Statement of Administration Policy (SAP) supports passage of the bill.

Cost to Taxpayers: The legislation reduces taxes by $11.2 billion over ten years.

Does the Bill Expand the Size and Scope of the Federal Government?: No. The legislation reduces the size of government, and reduces taxes by $11.2 billion over ten years.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: The bill contains no earmarks.

Constitutional Authority: The sponsor states: "Congress has the power to enact this legislation pursuant to the following: Article I, Section 8, Clause 1."

Outside Organizations in Support: The legislation is supported by well over 100 organizations. It is, for example, supported by the Government Withholding Relief Coalition which includes all of the organizations at this link.

RSC Staff Contact: Brad Watson, brad.watson@mail.house.gov, (202) 226-9719