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**AGC of America**  
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA  
**Quality People. Quality Projects.**



October 20, 2011

The Honorable Mitch McConnell  
United States Senate  
Washington, DC 20510

**Re: AGC of America Key Vote, Support S.1726, the Withholding Tax Relief Act**

Dear Senator McConnell:

On behalf of the Associated General Contractors of America (AGC), I am writing in support of S.1726, the Withholding Tax Relief Act, a bill to repeal 3 percent withholding on government contracts. AGC believes that repeal of 3 percent withholding to be of such importance to the construction industry that AGC will designate passage of S. 1726 as a "Key Vote," which will be used in a report card to its membership as an indicator of support for issues of significance to the construction industry.

This withholding will apply to construction contracts, among others. Unless repealed this year, the 3 percent withholding tax will have a dramatic, negative impact on millions of honest taxpaying businesses as well as state and local governments, health care providers, farmers and colleges and universities. AGC strongly supports the view that all companies should meet their federal, state and local tax obligations. Unfortunately, the 3 percent withholding tax treats honest tax payers like tax cheats. That is why AGC supports full, permanent repeal of this misguided policy.

The mandate is already proving costly and will increase exponentially as the implementation deadline moves closer. If this mandate is not repealed, it will cost companies and governments at all levels billions of dollars over the next 15 months just to prepare to comply with this unnecessary and unfortunate tax provision. These exorbitant expenditures will be at the expense of hiring new employees, expanding businesses, and providing government services at a time when neither the public nor private sector can handle such unnecessary costs.

If the 3 percent withholding mandate is not repealed, AGC can state with assurance that it will result in over withholding on every construction project. Construction contractors are dependent upon a healthy cash flow in order to qualify for and complete government work. Over withholding reduces the cash flow necessary for contractors to pay for the material, supplies, equipment, and labor to build a project, and it impacts the ability of contractors to obtain the bonds required by law that guarantee a contract will be completed. Even a small contractor can expect to pay roughly \$50,000 a year to comply with the withholding mandate; the largest contractors face nearly a \$50 million a year burden. Moreover, the cost for federal, state, and local governments to comply is estimated at more than \$15 billion over five years – funding that could otherwise be spent on improving the nation's public infrastructure and putting Americans back to work.

That is why we support S. 1726. Repeal of 3 percent withholding is a top legislative priority of the 33,000 member companies of AGC.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey D. Shoaf'.

Jeffrey D. Shoaf  
Senior Executive Director  
Government Affairs