



Written by [Bob Adelman](#) on June 3, 2011

Government Uses “Blunt Instrument” to Extract Taxes

This requirement was buried in the 2005 Tax Increase Prevention and Reconciliation Act as a response to a report in 2004 by the Government Accountability Office (GAO) that, as of September 30, 2002, more than 27,000 defense contractors [owed \\$3 billion](#) in unpaid taxes. In simplest terms, this was congressional retribution, and wound up creating such a storm of protest and backlash from those innocents “pre-accused of cheating” that the provision’s implementation was delayed until January 2011. But when the American Recovery and Reinvestment Act (ARRA) was passed in 2009, implementation of the tax withholding was delayed until January of 2012. On May 9, the IRS, succumbing to pressure from contractors as well as the White House, delayed implementation further, until January, 2013.



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Those delays have allowed opposition to the tax to build sufficiently to begin calling for its abolition altogether. The House Small Business and Ways and Means committees have called for repeal, and a bill (H.R. 674) pending in the House offered by Rep. Wally Herger (R-Calif.) for such repeal [already has 125 cosponsors](#).

Even some Democrats are lining up in favor of repeal, including Reps. Earl Blumanauer (D-Ore.) and Gerry Connolly (D-Va.). Blumanauer admitted that he is responding to heat generated by contractors in his district:

To put this burden on people who aren’t the major problem in terms of not paying their taxes, and scooping [up] everybody, I think actually creates more of a backlash. It makes people less likely to cooperate. It makes them cranky.

A government agency is also lining up in favor of repeal: the U.S. Small Business Administration (SBA). Chief Counsel for the SBA’s Office of Advocacy, Dr. Winslow Sargeant, noted that implementation of the withholding tax would increase companies’ cost of doing business with the government and would likely increase their prices to the government to pay the tax. He said, “The decision by the IRS to postpone the three percent withholding tax will help small businesses who are involved in government contracting. And while I applaud the postponement, the Office of Advocacy is committed to supporting its elimination, because small businesses continue to face challenging conditions.”

The law was originally designed to apply to all governments, federal, state, and local, with expenditures of more than \$100 million in a year, which would apply to every state and most cities and municipalities. But as is so often the case, the revenue that was expected to be generated by the law,



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[some \\$7 billion over five years](#), would be overshadowed by the cost of implementation. The Defense Department alone has estimated that the law would require changes in its computer programming for budgets and accounts payable that would [cost more than \\$17 billion](#) to implement.

[Resistance is building](#) around the country. Phil Bond, president and CEO of TechAmerica, calls the IRS decision to delay only “an 11th-hour quasi-reprieve from a tax increase that would have eliminated jobs and helped only the IRS. It is a scheme to force companies to pay taxes in advance and then wait for the IRS to send them a refund a year later. A one-year extension of the withholding and reporting requirements is a significant, positive development, but far from a solution. ”

Roger Jordan, VP of government relations at the Professional Services Council, agreed: “The withholding requirement would significantly reduce companies’ cash flow at a time when the current economic environment is already squeezing their ability to meet operation expenses. ”

The U.S. Chamber of Commerce is getting into the act as well, with a “[National Sign-On Letter](#)” campaign designed to put pressure on members of Congress. It noted in its letter,

Unless repealed, the 3% Withholding Tax will have a dramatic, negative impact on millions of honest taxpaying businesses, farmers, doctors and hospitals, as well as state and local governments. Under this provision, the Internal Revenue Service (IRS) was given new broad sweeping authority to hold hostage 3% of nearly every transaction between the public and private sector — giving the federal government an interest-free loan on the backs of many honest taxpayers.

It is reassuring to see back-pressure building on such a relatively minor issue. It represents the under-appreciated power of the Internet, coupled with general discontent increasingly being expressed by “cranky” voters. Not too many years ago, it would have been difficult, if not impossible, to generate this kind of push-back against such “blunt instruments” of Leviathan using ordinary methods of communication. In a microcosm this effort represents the kind of organized resistance needed across the spectrum of illegal and unconstitutional activities to bring that Leviathan to heel.



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