



AMERICAN COUNCIL OF ENGINEERING COMPANIES

# Regulatory Burdens that Stifle Economic Growth

## ISSUE

Congress has enacted new laws in recent years that will impose significant regulatory and tax burdens on America's engineering firms and other businesses. At a time when the nation's economy is struggling to recover, Congress should take action on two specific mandates that, if allowed to take effect, would impose needless burdens that would hamper the recovery effort.

**Three Percent Withholding Mandate** -- Congress should act quickly to repeal Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222), which mandates that federal, state, and local governments withhold three percent from payments to engineering firms and other contractors for goods and services. The law, which takes effect in 2012 and was intended to act as a tax enforcement mechanism, will cover all payments for products and services contracted by the federal government and state governments, as well as local governments that have annual expenditures that exceed \$100 million.

**1099 Filing Mandate** -- Congress should repeal a provision in the new health care law that will greatly expand the number of IRS Form 1099 filings. Under current law, firms only have to send 1099s for purchases of services valued at more than \$600 from non-corporate vendors. Starting in 2012, firms will have to file a 1099 for purchases of both services *and goods* valued at more than \$600, from both non-corporate *and corporate* vendors. This change will result in a massive expansion of 1099 filings – one ACEC member firm that currently files approximately 30 Form 1099s each year estimates they will have to file nearly 2500 under the new law. The House approved H.R. 4, authored by Representative Dan Lungren (R-CA), to repeal the mandate by a vote of 314 to 112. The Senate passed similar language as an amendment to the FAA reauthorization bill by a vote of 81 to 17.

## KEY POINTS

- The three percent withholding mandate will impose significant financial burdens on honest taxpayers and create serious cash flow problems for engineering firms, whose profit margins are often less than three percent.
- The mandate will impose significant administrative and implementation costs; a 2008 DOD report to Congress put the initial five-year cost for implementation at \$17 billion.
- The new 1099 requirement will impose substantial increases in paperwork and compliance costs; according to the IRS National Taxpayer Advocate, the reporting burden, particularly for small firms, will likely be disproportionate to any increase in tax compliance.

## ACEC POSITION

- To repeal the 3% withholding mandate – Cosponsor H.R. 674, introduced by Representatives Wally Herger (R-CA) and Earl Blumenauer (D-OR), and S. 89/S. 164, introduced by Senators Scott Brown (R-MA), Olympia Snowe (R-ME), Amy Klobuchar (D-MN), and David Vitter (R-LA).
- To repeal the expanded 1099 provision – Urge the House and Senate to complete action on 1099 repeal before the January 1, 2012 implementation deadline.

