



Tax Increase Prevention and Reconciliation Act 2006

"The Taxman Cometh"

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Outline

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What is the TIPRA

- The Tax Increase Prevention and Reconciliation Act of 2005 (or TIPRA, [Pub.L. 109-222](#), 120 [Stat.](#) 345) was enacted on [May 17, 2006](#).
- This bill prevents several tax provisions from [sun-setting](#) in the near future.
- The two most notable pieces of the bill are the extension of the reduced tax rates on capital gains and dividends and extension of the [alternative minimum tax](#) (AMT) tax reduction.



Section 511

- **SEC. 511. IMPOSITION OF WITHHOLDING ON CERTAIN PAYMENTS MADE BY GOVERNMENT ENTITIES.**
- '(1) **GENERAL RULE** - The Government of the United States, every State, **every political subdivision thereof**, and every instrumentality of the foregoing (including multi-State agencies) making any payment to any person providing any property or services shall deduct and withhold from such payment a tax in an amount equal to **3 percent** of such payment.
- (b) **Effective Date**- The amendment made by this section shall apply to payments made after **December 31, 2010**.



Section 511- Simply Stated

- Local governments must withhold 3 % from all payments to any persons providing property or services.
- Applies to governments who make total annual payments in excess of a \$100 million.
- Tax payable to the United States Government – Uncle Sam.
- This tax will go into effect after December 31, 2010.



Exceptions



- Payments subject to withholding under any other provision –most notably payroll taxes
- Payments for interest
- Real property



Reasons for this legislation

- Tax Gap – defined by the IRS as the difference between what taxpayers should have paid and what they actually paid.
- For 2001 IRS estimated the tax gap at \$345 billion.
- Key recommendation of the Joint Committee on Taxation (JCT).
- Widespread abuse of the federal tax system among government contractors - GAO report.
- 3,800 (10%) GSA Contractors owed \$1.4 billion in tax.
- 2,700 DOD Contractors owed \$3 billion and 33,000 Civilian contractors owed \$3 billion.



Impact on Local Governments



- Undue burden on local governments.
- 3% increase in costs likely to be passed on to jurisdictions by contractors.
- No new source of revenue to cover the increase in costs.
- Costs of implementing withholding tax systems into accounts payable and vendor records.
- How to implement.



Impact on Local Governments - cont



- Competitive disadvantage with private sector.
- Steer away contractors, particularly small businesses, from doing business with local governments.
- Trickle down effect on local governments making payments less than \$100 million.
- Revise all contracts and awards.



Responses to TIPRA Section 511

- NACo – opposes it.
- GFOA – opposes it.
- National League of Cities – opposes it.
- National Association of State Auditors Comptrollers and Treasurers – opposes it.
- Fairfax County – written a position paper opposing it.



HR Bill 1023



- Introduced on February 13, 2007.
- To repeal the imposition of withholding on certain payments made to vendors by government entities.
- Sponsored by Rep. Kendrick Meek (D-Florida) and Rep. Walter Herger (R-California).
- 77 co-sponsors.
- Currently sitting in House Ways and Means.



Senate Bill 777



- Introduced on March 6, 2007.
- To repeal the imposition of withholding on certain payments made to vendors by government entities.
- Sponsored by Senator Larry Craig (R-Idaho).
- Sitting in Finance Committee.



Commentary



- This is a tax collection and enforcement problem.
- Entire basis of legislation is on the tax gap.
- IRS has the responsibility to enforce tax collection.
- Local governments are not the agents for IRS.
- Unfunded mandate, undue burden.

