



AMERICAN COUNCIL OF ENGINEERING COMPANIES

Regulatory Burdens that Stifle Economic Growth

ISSUE

Congress enacted new laws in recent years that would have imposed 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, ACEC urged Congress to take action on two specific mandates that, if they were allowed to take effect, would have imposed needless burdens that would hamper the recovery effort.

Three Percent Withholding Mandate -- Congress enacted Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222), which mandated that federal, state, and local governments withhold three percent from payments to engineering firms and other contractors for goods and services. The law, which was intended to act as a tax enforcement mechanism, would have covered 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 also enacted a provision in the Affordable Care Act (ACA) that would have greatly expanded 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. The provision in the ACA would have required firms 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 would have resulted in a massive expansion of 1099 filings – one ACEC member firm that currently files approximately 30 Form 1099s each year estimates they would have to file nearly 2500 under the expanded provision.

KEY POINTS

- The three percent withholding mandate would have imposed significant financial burdens on honest taxpayers and created serious cash flow problems for engineering firms, whose profit margins are often less than three percent.
- The mandate would have imposed 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 would have imposed substantial increases in paperwork and compliance costs; according to the IRS National Taxpayer Advocate, the reporting burden, particularly for small firms, would likely have been disproportionate to any increase in tax compliance.

ACEC POSITION

ACEC strongly supported repeal of the 3% withholding and expanded 1099 provisions. Congress repealed both measures in 2011.

