



November 11, 2010

The Honorable Max Baucus
Chairman
Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus:

On behalf of the American Council of Engineering Companies (ACEC) and the Associated General Contractors of America (AGC), we are writing to express our support for including full repeal of the 3% withholding requirement in the next tax legislative vehicle moving through Congress, or at minimum a two-year delay in implementation.

As you know, Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) is a sweeping new requirement mandating that federal, state, and local governments with annual expenditures exceeding \$100 million withhold three percent from payments for goods and services. This withholding will apply to engineering and construction contracts, among others, and the law is currently scheduled to take effect in 2012.

As national organizations representing the nation's engineering and construction industries, ACEC and AGC strongly support full repeal of this misguided policy. The withholding mandate would unfairly penalize law-abiding taxpayers and impose a heavy burden on companies where often the average taxable income from a contract is less than the amount that would be withheld. The withholding will cut into funds needed to complete the contract and will create serious cash flow problems.

As we continue to work with Congress on repeal of this burdensome provision, we are concerned that businesses and their government clients are already incurring costs related to its implementation. Accounting and IT systems must be changed in order to reflect the withholding, and the 3% withholding is starting to be reflected in some long-term contracts.

Congress recognized the problems inherent in the 3% withholding mandate when it included language in the Recovery Act to delay implementation. If full repeal is not possible at this time, we respectfully urge Congress to act once again to delay

implementation. Engineering and construction firms have been hit hard by the economic recession, and it does not make sense to burden them further with the costs of this flawed policy.

Our organizations and our member firms stand ready to work with you on this important issue.

Sincerely,

A handwritten signature in cursive script, appearing to read "David A. Raymond".

David A. Raymond
President & CEO
ACEC

A handwritten signature in cursive script, appearing to read "Stephen E. Sandherr".

Stephen E. Sandherr
CEO
AGC