



STATE OF FLORIDA
CHIEF FINANCIAL OFFICER
ALEX SINK

May 7, 2009

The Honorable Bill Nelson
United States Senate
716 Hart Senate Office Building
Washington D.C. 20510

Dear Senator Nelson:

As Chief Financial Officer of the State of Florida, I am writing to the Florida Congressional Delegation to express my strong support for the repeal of Section 511 of the Tax Increase Prevention and Reconciliation Act (TIPRA), which requires governments to withhold 3 percent on payments made for most goods and services. **The requirement of a 3 percent withholding not only places an enormous burden on state and local governments, it is extremely detrimental to the small businesses that are the backbone of Florida's economy.**

First, it is imperative to note that Section 511 of TIPRA will impose a financial and logistical burden on state and local governments, many of which do not have the systems or capacity to implement this costly withholding provision. My office is the owner of the state's accounting system and is responsible for ensuring implementation of Section 511. Based on our estimates, **it will cost approximately \$5 million between 2009 and 2012** to implement design changes to our existing system and establish policies and procedures needed for full compliance. Thereafter, we believe **it will cost at least \$2 million a year to maintain the system** and handle normal operations of the requirement. At a time of a severe budget crisis in our state, the timing of Section 511 could not be worse.

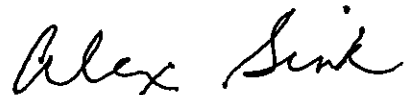
Second, small businesses that have government contracts have expressed significant concern regarding the problematic impact of the 3 percent withholding requirement on their ability to turn any kind of profit in a timely manner. According to several national contracting associations, **the profit margin on many state contracts may only be between 2-3 percent.** Withholding 3 percent on every payment under a contract will adversely affect cash flows, especially for smaller businesses that don't have the extra resources to shift money and cover their costs. In addition, the 3 percent withholding may be significantly higher than their tax liabilities, which essentially **forces these small businesses to "loan" money to the government** until it can be recovered in their annual tax returns.

Senator Nelson
May 7, 2009
Page Two

Finally, Section 511 will place Florida governments at a competitive disadvantage because private sector businesses that contract for services do not have to withhold the 3 percent from their vendors. Florida, and all state and local governments, will face an increase in the costs of goods and services as **vendors will simply pass along the 3 percent cost when bidding for government contracts.** For large infrastructure projects, the 3 percent additional cost will have significant impacts on projects and the state's budget, something Florida can hardly afford in these tight budget times.

While the intent of this provision may be to close the tax gap on businesses not paying their taxes, the unfortunate reality is that **Section 511 will penalize small businesses lawfully paying their taxes and ultimately cost governments more for contracts.** I am extremely concerned about the cost to the State of Florida and our small businesses if this 3 percent withholding requirement is implemented, which is why I strongly urge you to repeal Section 511 of the Tax Increase Prevention and Reconciliation Act.

Sincerely,

A handwritten signature in black ink that reads "Alex Sink". The signature is written in a cursive, flowing style.

Alex Sink
Chief Financial Officer
State of Florida

AS/kj