



President Signs Bill Repealing 3% Withholding on Government Contractors and Enhancing Credits for Hiring Veterans

On November 21, 2011, the President signed H.R. 674, the “3% Withholding and Job Creation Act,” (the “Act”), as amended by the Senate on November 10.

The House Ways and Means Committee cited the following problems with the withholding rule as reasons for its repeal: reducing cash flow, undermining job creation, contributing to uncertainty during uncertain economic times, imposing substantial costs of administration and possible price escalation. The repeal represents a major victory for industry groups who lobbied for it. The key provisions of the Act are as follows:

- Repeal of the controversial 3% withholding requirement on payments due to vendors providing property or services to federal, state, and local governmental entities that previously was to apply to payments made after December 31, 2012.
- Amendment of the work opportunity credit (WOTC) to give employers a tax credit of up to \$5,600 for hiring veterans who have been looking for a job for six months or more (up to \$9,600 for hiring disabled veterans). The enhanced credit amounts apply for those beginning work for the employer after the enactment date. The WOTC, which under pre-Act law did not apply to workers starting work after December 31, 2011, is extended by the Act for one year for those hiring qualified veterans. The Act also expedites the qualification process and provides tax-exempt employers with a credit opportunity.
- IRS may place a levy on assets to collect delinquent tax debts. Generally, a levy applies only to property or the rights to property that the taxpayer has at the time the levy is served. For “after acquired” property generally an additional levy must be served before the IRS can seize it. However, under pre-Act law a continuous levy of up to 100 percent of the amount of payments from the federal government to its suppliers of goods and services could have been served. A continuous levy applies to “after acquired” property and remains in place until removed. The Act expands this continuous levy to payments to suppliers of property as well for levies served after the date of enactment.
- No more than 12 months after the enactment date, Treasury will have to submit to the appropriate Congressional committees a study on ways to reduce the amount of federal tax owed but not paid by persons submitting bids or proposals for the procurement of property or services by the federal government.

H.R. 674 also includes non-tax provisions that provide job-finding assistance to returning veterans.



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Dixon Hughes Goodman Tax Alert | November 28, 2011

For further information regarding H.R. 674 in general, please contact your Dixon Hughes Goodman tax advisor or Melinda Davis at melinda.davis@dhgllp.com.

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