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October 25, 2011

The Honorable Wally Herger
U.S. House of Representatives
242 Cannon House Office Building
Washington, DC 20515

Re: Repeal of three percent withholding on payments to government contractors

Dear Congressman Herger:

On behalf of the more than two million farmers and ranchers who belong to farmer cooperatives, the National Council of Farmer Cooperatives (NCFC) would like to express support for H.R. 674. The Act would help farmer cooperatives and their farmer-owners by repealing the three percent withholding requirement for payments to government contractors, scheduled to take effect January 1, 2013.

For more than 100 years, farmer-owned cooperatives have brought individual farmers together to give them a chance to compete against entities with far more market power than any individual farmer. Since 1929, NCFC has been the voice of America's farmer cooperatives. NCFC members span the country, supply nearly any agricultural input imaginable, provide credit and related financial services, and market a wide range of commodities and value added products.

As you know, the Tax Increase Prevention and Reconciliation Act of 2005 put in place IRS Code Section 3402(t), which requires federal, state, and local governments to withhold three percent when making payments for property or services in amounts of \$10,000 or more. The requirement was slated to take effect January 1, 2011, but because of concerns over the administrative burdens it would impose on taxpayers, the requirement's effective date was delayed until January 1, 2013.

If the requirement is not repealed, farmer cooperatives will be adversely affected. For example, payments to dairy cooperatives for school milk or to supply cooperatives for fuel for a government fleet would be subject to the three percent withholding requirement. Cooperatives would then incur increased administrative and recordkeeping burdens in order to file for a refund of the withheld amounts. In addition, because most cooperative income is patronage-sourced and tax is paid at the producer level, the three percent withholding will essentially be an interest-free loan to the federal government.

NCFC opposes the new three percent withholding requirements and urges swift passage of H.R. 674. Thank you for your efforts on this bill and all that you do for U.S. agriculture.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles F. Conner", written in a cursive style.

Charles F. Conner
President & CEO

cc: U.S. House of Representatives