

**U.S. Conference of Mayors
National Association of Counties
National League of Cities
Government Finance Officers Association**

December 1, 2006

Senator Charles Grassley, Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

Senator Max Baucus, Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

VIA E-MAIL TO TAXGAP@FINANCE-REP.SENATE.GOV

Dear Chairman Grassley and Ranking Member Baucus:

On behalf of the U.S. Conference of Mayors (USCM), the National Association of Counties (NACo), the National League of Cities (NLC) and the Government Finance Officers Association (GFOA), national organizations representing city, county and state governments, we appreciate the opportunity to provide public comment on the Joint Committee on Taxation's report entitled "Additional Options to Improve Tax Compliance". In particular, we are very concerned that the proposal to "require state and local governments to report to taxpayers and the IRS the amount of real estate taxes paid" would impose a significant unfunded mandate on local governments.

While we support efforts to ensure that taxpayers comply with the federal tax code, we have numerous concerns about the prospect of a new reporting requirement on state and local government including the following:

- **City and county officials must not be charged with responsibility for determining which state and local taxes are or are not deductible.** This is a major concern of local government tax collectors, many of whom are not CPAs and whose responsibilities do not include federal income tax preparation. Aside from threshold concerns of jurisdiction and liability, there are also practical reasons why this would be infeasible. For example, officials may not be aware of the assessment method for items billed on behalf of another taxing jurisdiction or it may not be plainly evident whether or not a particular item is deductible under the federal tax code.
- **Reporting this information to the federal government would likely be a costly unfunded mandate.** Costs would vary significantly depending on the format required by the Treasury Department. Any reporting requirement that requires updating or replacing computer software and that takes time to compile and remit information would impose a considerable and ongoing unfunded mandate on county government. Additionally, the proposal would be overly burdensome on smaller governments who especially do not have the staff to implement these additional responsibilities. It should also be noted that the costs of the

intergovernmental mandate may outweigh the compliance benefits for the federal government, as the Joint Committee on Taxation acknowledges in its report, since nondeductible assessments are often a very small percentage of the overall tax bill.

- **Matching the identity of property taxpayers with federal income taxpayers would be extremely difficult and costly.** Municipalities, counties and states have no ability to require property taxpayers to provide their Social Security numbers or FEINs and could not provide this information to the IRS. Even if this information were available, the myriad of legal structures and combinations in which real estate can be held would frustrate efforts to match the deductions claimed against the original property tax bills.

We would be pleased to work with you to ensure local input in developing strategies to improve compliance with local, state and federal tax laws. However, any such effort must evolve from a true partnership among all levels of governments. Further, we would strongly urge against adopting federal rules that would unilaterally require local officials to collect federal taxes, implement new reporting software or procedures, or provide federal tax advice.

As you know, the initial “Options to Improve Tax Compliance and Reform Tax Expenditures” report included a proposal to require federal, state and local government entities to withhold three percent of nearly all payments to vendors for federal tax purposes; although this proposal never appeared in any legislation that passed the House or Senate or was vetted through any of the national organizations representing state and local governments, it was quietly slipped into the conference report and enacted into law as Section 511 of the Tax Increase Prevention and Reconciliation Act. This is an example of unilateral federal decision-making without meaningful intergovernmental consultation and we urge its repeal in the 110th Congress. In contrast, I hope that we can find a way to partner on future efforts to reduce our shared tax gap.

We applaud your bipartisan approach to identifying means of closing the federal tax gap. Tax avoidance is an acute problem facing not only the federal government, but also the nation’s local and state governments. Individuals who shirk their legal responsibility to pay the taxes that fund local government services impose an expensive burden on their law-abiding neighbors who suffer the resulting higher tax rates. For this reason, we support legislation such as S. 3512 and H.R. 3498 that would expand the Treasury Offset Program to collect delinquent debts from taxpayers who are beyond the reach of local enforcement.

We would also support federal legislation to authorize states participating in the Streamlined Sales and Use Tax Agreement to require out-of-state sellers to collect and remit state and local sales taxes. We urge the Senate Finance Committee to consider these and other proposals to reduce local government tax gap in the 110th Congress.

We hope that you find these comments instructive and we look forward to working with you on this effort. Please feel free at any time to contact our staff listed below.

U.S. Conference of Mayors – Larry Jones, 202-861-6709/ljones@usmayors.org
National Association of Counties – Alysoun McLaughlin, 202-942-4254/amclaughlin@naco.org
National League of Cities – Alex Ponder, 202-626-3028/ponder@nlc.org
Government Finance Officers Association – Susan Gaffney, 202-393-8020/sgaffney@gfoa.org