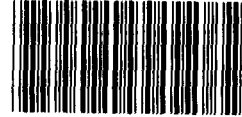


## General Government Division

92-1564

June 17, 1992



146893

The Honorable John H. Glenn  
Chairman  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

This letter responds to your inquiry regarding the practicality of the United States Postal Service (USPS) extending its withholding of employee local government taxes to a greater number of U.S. local governments. Based on our review of this matter and our discussions with USPS officials, we believe extending withholding to a greater number of U.S. counties and townships would be burdensome to USPS in terms of increased administrative and payroll software reprogramming costs.

As you know, Public Law 93-340 requires that a city or county must have within its political boundaries 500 or more federal employees before it can be eligible for local tax withholding by the federal government. Under the law, USPS currently withholds local taxes from its employees' paychecks in 54 cities, counties, and towns. If the law's threshold requirement were lowered to 25 or more federal employees per location, USPS estimates that potentially over 2,900 additional local governments could be eligible for withholding. Postal Service officials calculate this could involve withholding local taxes from an additional 415,000 USPS employees.

USPS officials believe that lowering the eligibility threshold, given the scale of USPS' operations--740,000 employees and 29,000 post offices--would be burdensome. Specifically, they said that the following current challenges to correctly withhold local taxes would be exacerbated if the threshold were lowered:

- The diversity and complexity of local government taxing formulas require software modifications to USPS' automated payroll system every time a local

government is added to the payroll system or changes its tax formula. USPS officials estimate it costs between \$2,000 and \$2,500 for each such withholding modification.

- Local governments do not provide timely notification to the Postal Service of changes to their taxing formulas or laws, which often causes incorrect withholding that must then be corrected.
- Reciprocal taxation rules between local taxing jurisdictions are not always clear and result in conflicts over which local government has withholding rights; this, in turn, complicates USPS' efforts to withhold.
- Postal facilities located near state borders have employees who reside in nearby states. This requires considerable USPS effort to determine what local taxes to withhold.
- When USPS employees move to a different municipality, they often fail to notify USPS. This results in incorrect withholding.

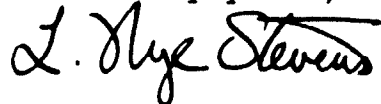
Given the current challenges to accurately withhold local taxes--all of which involve administrative and reprogramming costs--and the fact that lowering the eligibility threshold could result in USPS withholding for 50 times as many local governments as they now deal with, USPS' position that lowering the threshold would be too burdensome seems reasonable.

USPS officials suggested to us that one approach for simplifying withholding would be to have a "standard" rate of withholding for all local governments. The standard would be set by canvassing participating local governments on a mutually acceptable rate. Although this could be politically challenging to orchestrate, USPS officials believe this approach would reduce their administrative and reprogramming costs associated with withholding and would make the expansion of this responsibility acceptable.

92-1564

We hope this information is helpful. Kurt Kershow of our staff researched this question. If you have any other questions, please contact me on (202) 275-8676.

Sincerely yours,

A handwritten signature in cursive script that reads "L. Nye Stevens".

L. Nye Stevens  
Director, Government Business  
Operations Issues

(995280)