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United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-253509

May 21, 1993

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



Dear Mr. Chairman:

This letter is in response to your constituent's inquiry regarding our June 17, 1992 letter to you in which we concluded that it would be costly to require the United States Postal Service to withhold both local residence and workplace taxes from employees at locations having 25 or more federal employees. Your constituent asked whether it would be practical to withhold only local workplace taxes for employees' at locations having 25 or more employees. On the basis of our discussions with Postal officials, we determined that withholding taxes based only on the employees place of work would still be burdensome to the Postal Service in terms of increased administrative and payroll software reprogramming costs.

As currently required under 5 U.S.C. §5520, a city or county must have 500 or more federal employees before it is eligible to enter into an agreement with the federal government to withhold local government taxes. Postal officials believe that the cost of extending withholding to locations with 25 or more employees, even if only for workplace taxes, would be prohibitive because of the large number of new locations that would be included. Postal officials believed that as many as 20,000 postal facilities could require payroll modifications if the law's threshold were reduced.

Two problems associated with correctly withholding local taxes, identified in our original letter, would still apply to workplace taxes and result in additional software and administrative costs. Those items, as stated in our previous letter, were:

- The diversity and complexity of local government taxing formulas require software modifications to the Service's automated payroll system every time a local government is added to the payroll system or changes its tax formula.

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-- 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 be corrected.

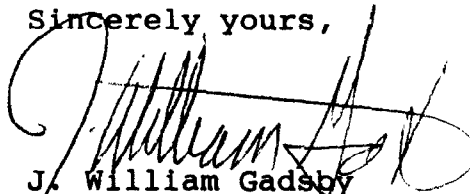
Postal officials added that they sometimes are required to calculate and prorate workplace taxes for multiple municipalities for employees, such as truck drivers and rural letter carriers, who travel through more than one municipality during the course of their workday. This could increase significantly if the law's threshold were lowered.

Postal officials told us that cost estimates provided in our previous letter have increased. The officials said that the cost estimate of \$2,000 to \$2,500 per software modification for each time a local government tax formula is added or changed in the payroll system has increased due to increases in computer access fees and programmers' hourly wage rates. In addition, they said that Postal headquarters payroll staff, which was recently reduced in the Service's organizational restructuring, would have to be increased to meet greater field communications and training needs if the threshold were lowered.

As discussed in our earlier letter, Service officials suggested that one approach for extending withholding of local workplace taxes, without prohibitively increasing administrative and software reprogramming costs, would be to collect a "standard" rate of withholding for all local governments. According to officials, the standard would be set by canvassing participating local governments on a mutually acceptable rate.

We hope that this information satisfies your current needs. If you have any questions concerning this letter, please contact me at (202) 512-8387.

Sincerely yours,



J. William Gadsby  
Director, Government Business  
Operations Issues

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