

IRS Private Debt Collection

October 5, 2007

- The IRS had three private collection companies under contract in September 2006. In February 2007, one collection company was dropped from the program. No additional contracts have been awarded; IRS has not moved forward with the 3-5 projected new contracts in October 2007.
- The IRS has spent \$71 million on the private debt collection program. Had IRS collection employees been hired/trained at a cost of \$71 million, the federal government would have collected \$1-2 billion in additional taxes.
- Contractors have commissionable collections of \$25.2 million, and IRS estimated this would be \$44 million to \$63 million.
- The private collectors have resolved only about 10,000 cases (less than 10 percent) of the 118,500 cases placed.
- The IRS placed 118,500 cases valued at \$512.6 million, and IRS estimated that this value would be \$721 million.
- Private contractors have been paid “bounties” or commissions of \$5.5 million (based on \$25 million in collections).
- There are approximately 60 IRS employees assigned to monitor the work of about 90 private collection employees. In March, there were 45 IRS employees monitoring the 90 private collection employees.
- Most of the 83 taxpayer complaints known to IRS are self-reported by the contractors.

Major Results of Committee Investigation of Private Debt Collectors

May 22, 2007

- Private debt collectors have made nearly one million calls in attempts to reach the 35,000 taxpayers who owe taxes.
- Hundreds of thousands of innocent households (about 300,000)

actually engaged in unnecessary conversations with private collectors.

- Numerous cases have been identified that illustrate taxpayer harassment, abusive calling, and violations of taxpayer rights, the Fair Debt Collection Act, and taxpayer return disclosure protections.
- For example, one elderly couple was called 150 times, including 5 times a day, asking for a taxpayer. Within the first 5 calls, the debt collector knew that the taxpayer did not reside at the home. Calls continued for 27 more days with 1-7 calls per day.
- Other cases involve people in nursing homes, those serving in Iraq, innocent spouses, low-income taxpayers facing economic hardships, non-English speaking taxpayers, and those subject to identity theft.
- The Federal Trade Commission has 130 complaints likely to involve the private tax debt contractors. The Taxpayer Advocate has many more.
- Taxpayer violations count as a “point” against the contractor; therefore, there is no incentive for the private collectors to report. If a serious violation occurs, the contractors’ employees, in practice, are not subject to firing (like IRS employees).
- The IRS’s report showing a 94 percent taxpayer satisfaction with private debt collectors is flawed (i.e., a fraud). GAO will testify that the IRS believed that all taxpayers would be offered the survey (i.e., about 300,000 conversations). In fact, only 1,000 taxpayers took the survey, and private collectors were able to choose which taxpayers would participate.
- Before being told that the private collector works for the IRS and is calling about a tax debt, the public/taxpayers are pressured to provide their social security numbers. Most refuse because they have no idea who the contractor is or what they want. They also fear identity theft.
- 35,000 taxpayers were sent letters from the IRS and from a private collection firm. About 5,000 of the IRS letters and about 6,000 private contractor letters were returned by the Post Office as undeliverable.

- Many taxpayers throw out the private contractor letters as “junk mail” without opening them. The letters are sent in innocuous, plain envelopes with meaningless return addresses.
- The private debt collection program targets low-income taxpayers. The IRS claims it does not know the income levels of taxpayer cases sent to private collectors. However, planning data indicates that 70% of taxpayers had incomes of \$50,000 or less.
- Private collectors do not advise low-income taxpayers that they are eligible for a reduced fee when entering into an installment agreement (i.e., \$63 rather than \$105).