

# **NTEU**

**The National Treasury Employees Union**

July 17, 2007

Dear Ways and Means Committee Member:

On behalf of the National Treasury Employees Union (NTEU) and our more than 150,000 federal workers in 31 government agencies, nearly 88,000 of whom work for the Internal Revenue Service (IRS), I am writing to express our strong support for H.R.3056, the "Tax Collection Responsibility Act of 2007" when it is marked-up by the Ways and Means Committee tomorrow. This critical legislation would repeal the IRS's authority to enter into contracts with private sector debt collectors and ensure that tax collection is kept in the professional and accountable hands of federal employees.

As you may know, under the IRS's private tax collection plan, private collection agencies (PCAs) are eligible to keep 21% to 24% of what they collect, depending on the size of the case. In testimony before Congress, IRS officials have repeatedly acknowledged that using private collection companies to collect federal taxes is more expensive than having the IRS do the work itself. During a May 23 Ways and Means Committee hearing on the use of private collection companies to collect federal income taxes, the Acting Commissioner of the IRS once again confirmed that IRS employees could do this work more efficiently than the private contractors and acknowledged that the return on investment (ROI) from using IRS employees to collect these taxes is 13 to 1 while the ROI for PCAs is just 4 to 1.

The idea of allowing PCAs to collect tax debt on a commission basis flies in the face of the tenets of the IRS Restructuring and Reform Act of 1998. Section 1204 of the law specifically prevents employees or supervisors at the IRS from being evaluated on the amount of collections they bring in. But now, the IRS has agreed to pay PCAs out of their tax collection proceeds, which clearly encourages overly aggressive tax collection techniques, the exact dynamic the 1998 law sought to avoid. Furthermore, the IRS is turning over tax collection responsibilities to an industry that has a long record of abuse. For example, in 2006 (the latest year statistics are available), the Federal Trade Commission (FTC) received more than 69,000 consumer complaints about debt collection agencies — giving debt collectors the impressive title of the FTC's most complained-about industry.

The fear that allowing private collectors to collect tax debt on a commission basis would lead to contractor abuse was realized when the IRS recently confirmed that the agency had received more than five dozen taxpayer complaints against PCAs, including violations of taxpayer privacy laws. In addition, concerns over taxpayer treatment recently led the IRS to terminate its contract with one of the three PCAs contracted to do collection work and penalties totaling \$10,000 have been imposed by the IRS on PCAs for taxpayer violations. In one instance, private collectors made 150 calls over the course of 27 days to the elderly parents of a taxpayer after the collection agency was notified he was no longer at that address.

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This is not the first time the IRS has tried to outsource the collection of federal income taxes. In 1996, the IRS attempted private tax collection with dismal results. The 1996 pilot program for private collection was so unsuccessful it was cancelled after 12 months, despite the fact it was authorized and scheduled to operate for two years. A subsequent review by the IRS Office of Inspector General found that contractors participating in the pilot programs regularly violated the Fair Debt Collection Practices Act, did not adequately protect the security of personal taxpayer information, and even failed to bring in a net increase in revenue.

NTEU commends efforts to reduce the tax gap and ensure that all taxpayers pay their fair share of taxes. Without a doubt, rank and file IRS employees are committed to achieving this goal in the most cost-effective manner while providing a high level of customer service to American taxpayers. But the facts make clear that the use of private tax collection companies is not in the best interest of American taxpayers, could potentially undermine future efforts to close the tax gap, and should be terminated immediately.

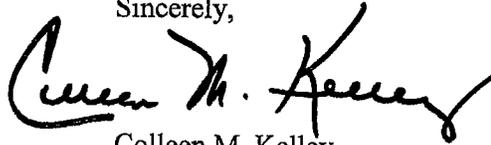
NTEU is not alone in our view. With bipartisan support, the House has twice passed language prohibiting the IRS from moving forward with its private collection initiative, including last Congress when the House unanimously approved an amendment authored by Representative Steven Rothman to the FY 2007 Transportation-Treasury Appropriations bill preventing the IRS from using appropriated funds to hire private sector debt collectors.

The private tax collection program is also opposed by a number of public advocacy groups including, Consumer Federation of America; NAACP; National Active and Retired Federal Employees Association; National Consumer Law Center; National Consumers League; and the National Council of La Raza. In addition, the National Taxpayer Advocate, an independent official within the IRS recently identified the IRS private debt collection initiative as one of the most serious problems facing taxpayers and called on Congress to immediately repeal the IRS's authority to outsource tax collection work to private debt collectors.

As the past has clearly shown, privatizing federal tax collection is a waste of taxpayer dollars, invites overly aggressive collection techniques, and jeopardizes the financial privacy of American taxpayers. Therefore, I am requesting your assistance in preventing the IRS from continuing its misguided plan to outsource tax collection to private companies by approving H.R.3056, the "Tax Collection Responsibility Act of 2007" when it is considered tomorrow by the full committee.

Please feel free to contact Maureen Gilman or Matt Socknat in the Legislation Department at (202) 572-5500, if you have questions or need additional information.

Sincerely,



Colleen M. Kelley  
National President

cc: Maureen Gilman  
Matt Socknat



March 28, 2007

**Re: Supporting H.R. 695 to end tax collection by private companies**

Dear Representative:

The undersigned organizations strongly support **H.R. 695, the Taxpayer Abuse and Harassment Prevention Act of 2007**, and urge you to co-sponsor this important legislation and vote for it when there is an opportunity. If enacted, it would end an Internal Revenue Service (IRS) private tax collection program that is demonstrably wasteful, puts taxpayer privacy rights in jeopardy, and has fostered illicit activities by private companies.

**The IRS private tax collection program is not fiscally sound.** Taxpayer money is being used to pay private companies 21 to 24 cents for every dollar they collect, while IRS employees could do the same job for 3 cents on the dollar. Former IRS Commissioner Charles Rossotti told the IRS Oversight Board in 2002 that assigning more revenue agents to debt collections could see a return of \$30 to every \$1 invested. Indeed, the wastefulness of the program is not disputed. In testimony to Congress, IRS Commissioner Mark Everson has repeatedly admitted that IRS employees could perform this work at far less cost than private collection agencies.

Nina Olson, the head of the Office of Taxpayer Advocate, which operates independently from the IRS and recommends changes in the tax collection system, has made ending the private collection program a top priority for the year. She has said in testimony to Congress that the tax collection program may become "vastly more expensive than we ever imagined," since it requires significant investments in IRS oversight and management personnel.

In point of fact, the IRS administered a pilot private tax collection program in 1996 that failed to produce a return on investment. Contractors did not bring in nearly as much money as projected, and the program amounted to a \$17 million net loss for the government. As a result, a follow-up tax collection program was canceled.

**The IRS private tax collection program also lacks safeguards for taxpayer privacy - and will allow the IRS to hand over personal information of 2.5 million taxpayers to private companies.** The 1996 experience regarding the tax collection pilot program raised concerns over privacy and taxpayer abuse. A 1997 IRS Internal Audit Report found that contractors engaged in behavior prohibited by the Fair Debt Collection Practices Act, and did not protect the security of sensitive taxpayer information. Ms. Olson, the National Taxpayer Advocate, has expressed concern that the IRS has not set up sufficient safeguards to prevent the same experience from being repeated under the current program. According to Ms. Olson, private collectors have opportunity to use "trickery, device, and belated Fair Debt Collection Practices Act warnings to

take advantage of taxpayers," and yet they are not obligated to disclose their "operational plans" regarding practices, letters, or scripts they will use.

**The IRS private tax collection program was enacted under circumstances that gave unfair and wasteful advantages to contract bidders.** The most important terms of the private collection contracts – commission rates by which contractors are paid for their services – were never put up for competition. The IRS set commission rates at 21 to 24 percent of the revenue collected by contractors, denying bidders an opportunity to make offers on terms that would have resulted in the IRS getting a greater share of the collected revenue. Consequently, two of the companies who lost their bid for the contract filed complaints with GAO over the contract competition. GAO has also reported that the IRS did not established a mechanism by which it could evaluate the cost-effectiveness of the program, or a mechanism for incorporating lessons learned during the program's first phase.

**Illicit conduct by one of the private collection agencies IRS contracted with raises questions about the integrity of the private tax collection program.** A 2006 New York Times article reported that one of the winning bidders – Linebarger Goggan Blair & Sampson – had a former partner sent to jail for bribing the San Antonio municipal government in exchange for debt collection contracts. In addition, a Linebarger competitor is now suing the city of Brownsville, TX, charging that the municipal government gave a debt collection contract to Linebarger in exchange for campaign contributions to city commissioners. Linebarger has reportedly been forced to give up the IRS contract to collect federal debts, but for reasons that the IRS has not disclosed.

We strongly urge you to consider the ample evidence that this program unnecessarily wastes federal resources, threatens taxpayer's privacy rights, and creates the environment for violations and abuses by private companies. **We hope you will add your name as a cosponsor to this important legislation to end the IRS's private tax collection program.**

Sincerely,

American Federation of State County and Municipal Employees  
Citizens for Tax Justice  
National Treasury Employees Union  
OMB Watch