

April 12, 2007

FACT VS. FICTION REGARDING THE IRS PRIVATE DEBT COLLECTION INITIATIVE

Dear Colleague:

Much has been made both in the media and right here on Capitol Hill about a new Internal Revenue Service program that allows private firms to help collect some of the hundreds of billions of dollars of unpaid federal taxes, commonly known as "the tax gap."

Critics have called for an end to the program before it's even had a chance to get off the ground but before Congress takes this recommendation too seriously, we should take the time to consider all the facts.

Authorized by Congress to enlist private collection agencies to help close the tax gap as part of the American Jobs Creation Act of 2004, the IRS started the program last September and reports that private collection firms have already exceeded expectations, collecting more than \$14.4 million in the program's first months.

Unfortunately, the program's opponents have chosen to ignore the upside potential of the initiative and instead created unnecessary alarm over the loss of federal jobs and taxpayer privacy. Neither criticism stands up to analysis.

First, the private debt collection initiative does not replace or eliminate IRS jobs. In fact, the program, by statute, allows the agency to use 25 percent of collected dollars to hire new IRS collection officers. Our best opportunity to close the tax gap will involve both private companies and hiring more, well-trained employees at the IRS. We should do both.

As for the concerns over privacy, the private collection agencies working on the IRS contract are only given access to the most basic taxpayer information and the amount of delinquent tax owed – and only for those cases where the taxpayer has already admitted to delinquency and agreed to pay. The intense scrutiny on this program means that information security at these companies might even be superior to that of the federal agencies.

In fact, in a report to the Joint Committee on Taxation, the IRS stated that private collection agencies involved in this initiative are exceeding expectations with regard to customer service. The IRS measures the companies' performance in several categories including taxpayer satisfaction, professionalism, accuracy and timeliness. According to the IRS, the private collection agencies have scored at or above 94 percent in all categories, including scoring 100 percent for professionalism. In similar collection efforts, the IRS only scores a 63 percent rating in overall taxpayer satisfaction.

Even further, a new report by the Treasury Inspector General for Tax Administration notes that "contractor employees were adequately trained, background investigations were completed, telephone call monitoring and oversight procedures were established, and computer and physical procedures were established before cases were assigned." The report also states that contractors "implemented a strong system of computer and physical security controls."

Any taxpayer contacted by a private collection agency may request to have his or her case referred back to the IRS, yet only one-half of one percent has actually done so, according to the National Taxpayer Advocate.