



STATEMENT FOR THE HEARING ON INTERNAL REVENUE SERVICE'S USE OF PRIVATE
DEBT COLLECTION COMPANIES TO COLLECT FEDERAL INCOME TAXES

HOUSE WAYS AND MEANS COMMITTEE

May 23, 2007

OMB Watch, a nonpartisan government watchdog organization that promotes responsible and equitable fiscal policy, has investigated the IRS's private debt collection program and concluded that it is demonstrably wasteful, puts taxpayer privacy rights in jeopardy, and has fostered illicit activities by private companies. We believe the program should be ended.

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.

Furthermore, in the National Taxpayer Advocate Service's 2006 annual report to Congress, Ms. Olson reported that 65 IRS employees were being paid to monitor the program, while the private collection agencies were using just 75 employees to pursue cases. Yet IRS has claimed that it lacks the resources to staff the collection program with IRS employees.

The IRS private tax collection program also lacks safeguards for taxpayer privacy - and will allow the IRS to hand over the 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 has expressed concern that the IRS has not set up sufficient safeguards to prevent the same experience from being repeated under the

Celebrating 20 years: Promoting Government Accountability and Citizen Participation - 1983 - 2003.

1742 Connecticut Ave NW
Washington, DC 20009



tel: 202.234.8494
fax: 202.234.8584



email: ombwatch@ombwatch.org
web: <http://www.ombwatch.org>

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.

For these reasons, we believe that this program should be terminated.