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Grassley Urges a Reality Check on IRS' Private Debt Collection Program

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, is urging his fellow senators to reject inaccurate claims about the Internal Revenue Service's program to collect taxes using private contractors. In a "Dear Colleague" letter, Grassley points out that the IRS' own collection infrastructure is better set up for placing liens and garnishing wages than making initial phone calls to delinquent taxpayers to set up a payment plan. Grassley writes that the private debt collection program consists of having contractors making basic phone calls to taxpayers, contrary to the images of thuggish collection agents conjured by opponents.

The text of Grassley's "Dear Colleague" letter follows here. Attached is a document from the IRS responding to questions from the non-partisan, congressional Joint Committee on Taxation.

April 23, 2007

REALITY CHECK ON IRS DEBT COLLECTION PROGRAM

Dear Colleague:

The opponents of the IRS program to collect uncontested taxes owed to the U.S. Treasury have put forth an amazing campaign of misinformation. Every year, over \$20 billion of unpaid taxes are lost due to the tolling of the 10-year statute of limitations. There are currently over 7 million cases representing over \$90 billion languishing at the agency that could be collected. Some of this money is best collected by the tough cops of the IRS, fully empowered to seize property, garnish wages, freeze bank accounts and sell the family home or business. But, a large percentage – typically the smaller, newer debts – is best obtained by a modern outbound call system, empowered only to find, call and convince.

The IRS does not have such a system and building the infrastructure and training IRS employees on how to work such a program would take years if not decades. Keep in mind that the IRS has been working to rebuild its core computer systems for 10 years and has spent hundreds of billions of

taxpayer dollars and yet it is scheduled to handle only 20 million returns this filing season. After 20 years of oversight, I have come to the conclusion that building infrastructure and creating new business practices internally is an almost impossible task for the IRS. Calls by opponents to simply retrain GS 4 service center personnel and hand them a telephone demonstrates a complete misunderstanding of how a sophisticated, modern outbound calling program works, and what it takes to build one.

It is almost a foregone conclusion that the U.S. Senate will be debating the future of this program over the next few months. When that time comes, please keep in mind the following facts:

First, the customers have spoken and they prefer the private program over IRS employees. Little known to policymakers and the public, the IRS Restructuring and Reform Act requires the IRS to perform customer satisfaction surveys on its employees, including collection personnel. The IRS required the survey as a part of all debt collection program contracts as well. How do they compare? Employees of **the debt collection program received an astounding 94 percent customer service rating by taxpayers** contacted by the program in the first 3 months of its implementation. This compares to **63 percent for IRS collection personnel**. Additionally, the employees of the debt collection program received a 97 percent rating from the IRS for regulatory and procedural accuracy and a 100 percent rating for professionalism. Clearly, the IRS has put together a winning partnership with the private sector.

Second, the opponents of the program paint a dire picture of psychological harassment and abuse. In reality, as few as 36 inquiries have been registered out of more than 24,000 cases. And, it is unclear how many of these were real complaints and how many were merely questions about the program. The numbers just do not merit the silly and offensive images of gangsters bandied about by opponents of the program. The tax gap is a serious matter and taxpayers deserve and expect a serious discussion of the facts.

Third, there has been a great deal of discussion on how IRS employees can do this work cheaper. Before you nod and accept this as fact, please keep in mind that the average fully trained field function collection officer costs the government approximately \$154,000 a year. This includes salary, bonus, benefits, taxes, and a portion of direct overhead cost like supervision and administrative services, rent, travel, technology, telecommunications, postage, training, recruitment and other costs of business (not including a percentage of the Washington bureaucracy). The Treasury Inspector General for Tax Administration found that in 2005, these folks collected on average \$577,000 each. Now, that is an excellent return on investment, but simple math shows that for every dollar collected by these important IRS collection personnel, it cost the government conservatively 26 cents.

Some argue that the IRS can do it cheaper by hiring more personnel, but it is important to remember that the IRS Restructuring Commission found that the IRS does not perform, nor do they particularly understand, cost analysis as required and used by the private sector. Last year the agency collected over \$43 billion total enforcement dollars. In their budget justification for OMB, they listed their costs for enforcement at \$1.8 billion -- thus, the existence of the almost magical 3 cents on the dollar number used by the opponents of the program. Don't be fooled, however, by a number which includes computer matching notices, drug seizure and refund offset programs. These programs make the IRS look extremely efficient but would not be affected by the addition of a single additional IRS

employee. In fact, the actual number brought in by collection personnel last year was only \$5.8 billion.

Does the IRS need more collection personnel? Most certainly they do. However, it is important to keep in mind that tax administration systems from around the world and in 42 states have concluded that best practices for tax collection includes a combination of people able to effect strong governmental actions (liens, levies, seizures) with a more humane private program of outbound calling.

Finally, many thoughtful people conclude that tax collection is an inherently governmental function. They would be correct when we talk about collection powers such as issuing liens, seizing property, and contacting third parties such as employers and vendors for payment of government debt. The private debt collection program has none of these fundamental governmental powers. The private collection agencies are only empowered to find the taxpayer, contact the taxpayer directly, and enter into either an immediate payment or short-term installment agreement. Any questions or problems are directed immediately back the IRS. If the taxpayer still refuses to pay, the updated data on his or her whereabouts will only strengthen and improve IRS's ability to take more drastic measures.

In short, the private debt collection program is working. Killing it now would mean billions of dollars of uncontested taxes would not be available for the war on terrorism, education, and caring for the elderly – to name just a few. Please join with me in support of this important program making a serious contribution to closing the tax gap.

Sincerely,

Chuck Grassley
Ranking Member
Committee on Finance