

Annual Report to Congress – Internal Revenue Service Special Compliance Personnel Program

Message from the Small Business/Self-Employed Commissioner

I am pleased to present the Internal Revenue Service's annual report on the Special Compliance Personnel Program. This report provides important information to the American public on the status of the Internal Revenue Service, Small Business/Self-Employed Special Compliance Personnel Program efforts. This report provides information on our efforts to implement a successful program intended to supplement the IRS's efforts in collecting taxes owed.

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I. INTRODUCTION

Public Law 114-94, the Fixing America's Surface Transportation (FAST) Act of 2015, requires the IRS to use private collection agencies for the collection of inactive, outstanding tax receivables. Sections 32102 and 32103 of the FAST Act amended Internal Revenue Code (IRC) sections 6306 and 6103 and created new section 6307. Collectively, these sections reform the rules relating to qualified tax collection contracts and mandate a new special compliance personnel (SCP) program.

New IRC section 6307(c) requires the IRS to report to Congress annually on activities related to the SCP Program for the preceding, current, and following fiscal years. This report is the second issued since enactment, and it outlines the law as well as the IRS timeline to implement the SCP program. It also provides the SCP program results for fiscal year (FY) 2018, the first quarter of FY 2019, and estimates for the remainder of FY 2019 and for FY 2020. The revenue and budget figures are as of February 2019.

II. SPECIAL COMPLIANCE PERSONNEL (SCP) PROGRAM ACCOUNT

In addition to requiring the use of private collection agencies to collect inactive tax receivables, the law requires the IRS to establish an account to carry out a Special Compliance Personnel (SCP) program to hire, train, and employ special compliance personnel.¹ Under the law, the IRS is entitled to retain up to 25 percent of the amount collected by the private collection agencies to fund the account.²

The SCP program account is subject to three restrictions³:

- First, no other funds will be transferred to this account.
- Second, no other funds from any other source will be expended for the SCP employed under the program, and no funds from such account will be expended for the hiring of any personnel other than the SCP.
- Third, the Secretary is prohibited from spending funds from the account for any purpose other than for the costs associated with employment of SCP and the retraining and reassignment of current non-collection personnel as SCP, and to reimburse the IRS or other government agencies for the cost of administering qualified tax collection contracts under section 6306.

¹ IRC Sec. 6307(a).

² IRC Sec. 6306(e)(2).

³ IRC Sec. 6307(b)(1), (2), and (3).

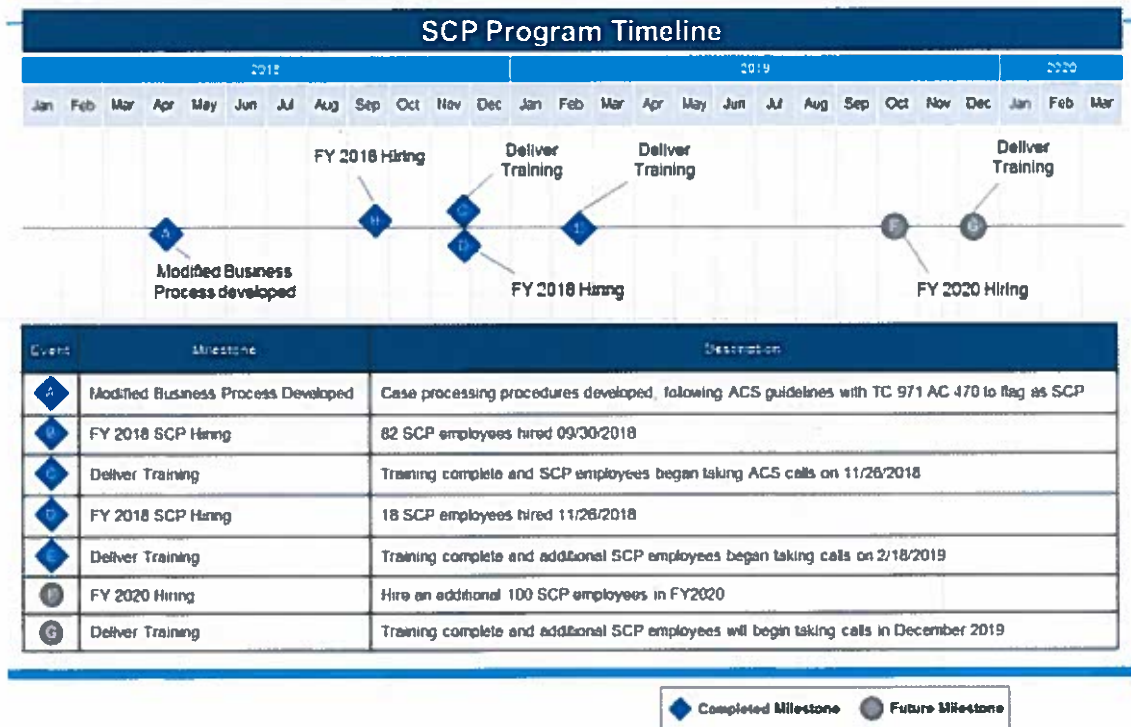
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III. SPECIAL COMPLIANCE PERSONNEL (SCP) PROGRAM IMPLEMENTATION

A. Timeline

The law requires the IRS to hire and train SCP to collect taxes using the automated collection system or equivalent system. The IRS hired 100 SCP employees between September 30 and November 26, 2018, to work automated collection system cases in the Philadelphia Service Center. With continued success of the Private Debt Collection (PDC) Program, the IRS plans to hire an additional 100 SCP employees at the start of fiscal year 2020 with the projected retained earnings and available funds in the SCP Program Fund Account.

Special Compliance Personnel Program Timeline



B. Collection of Tax

The SCP Program employees collect tax due on randomly selected accounts in collection status that are also available for collection by IRS collection employees. The IRS systems flag selected accounts as the SCP Program accounts. The IRS established a new toll-free line for taxpayers whose accounts have been identified as SCP program accounts. The automated collection system customer representatives (employed as SCP) receive calls from this toll-free number and assist taxpayers in resolving their outstanding tax debt. They also correspond with taxpayers and utilize administrative enforcement tools such as liens and levies as appropriate.

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IV. DEFINITIONS

This section defines terms used in this document.

A. Special Compliance Personnel (SCP)

Special compliance personnel are individuals employed by the IRS as field function collection officers or in a similar position or employed to collect taxes using the automated collection system.⁴

B. SCP Program Costs

The SCP Program costs refers to total salaries, benefits, and employment taxes for SCP employed or trained under the SCP Program.⁵ This amount also includes the direct overhead costs relating to support staff and indemnities for SCP hired and employed, and other costs.⁶

C. Contract Administration

Contract administration refers to activities that take place after contracts are signed and before final payment and closeout. Contract administration activities include monitoring the contractor's technical performance, reviewing and approving payment invoices, controlling government property, monitoring subcontractors, reviewing task orders, and overseeing contract modifications and terminations. Contract administration also includes activities and travel that support the SCP Program office regarding program reviews, program status, program performance, and providing technical direction required for performance of work under the terms of the contract.

D. SCP Program Fund Account

The SCP Program fund account consists of retained earnings, which is 25 percent of the commissionable dollars collected by private collection agencies. This fund, less sequestration, can only be used to pay for contract administration and the SCP Program costs. The SCP Program costs can only be funded from this account. The SCP Program fund balance at the end of the fiscal year is carried over to the following fiscal year.

⁴ IRC Sec. 6307(d)(1)

⁵ IRC Sec. 6307(d)(2)(A)

⁶ IRC Sec. 6307(d)(2)(B)

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V. SPECIAL COMPLIANCE PERSONNEL (SCP) PROGRAM FUND

[IRC 6307(c)(1) — For the preceding fiscal year, all funds received in the account established under subsection (a),⁷ administrative and program costs for the program described in such subsection, the number of special compliance personnel hired and employed under the program, and the amount of revenue actually collected by such personnel.]

[IRC 6307(c)(2) — For the current fiscal year, all actual and estimated funds received or to be received in the account, all actual and estimated administrative and program costs, the number of all actual and estimated special compliance personnel hired and employed under the program, and the actual and estimated revenue actually collected or to be collected by such personnel.]

[IRC 6307(c)(3) — For the following fiscal year, an estimate of all funds to be received in the account, all estimated administrative and program costs, the estimated number of special compliance personnel hired and employed under the program, and the estimated revenue to be collected by such personnel.]

The sections below detail the SCP Program results and estimates for FYs 2018 – 2020.

The IRS successfully implemented the Private Debt Collection (PDC) Program in April 2017. The IRS retains twenty five percent of the commissionable payments in the SCP Program fund account. This account, less sequestration, may be used to pay contract administration costs and SCP Program costs.

A. Preceding Fiscal Year (FY 2018)

Private Debt Collection (PDC) Revenue:

Actual: In FY 2018, the PDC Program generated \$82.2 million in revenue (\$75.4 million commissionable and \$6.8 million non-commissionable payments).

SCP Program Fund Costs (Contract Administration and SCP Program):

Actual Contract Administration Costs: In FY 2018, Contract Administration costs totaled \$4.3 million.

Actual SCP Program Cost: There were no SCP Program costs in FY 2018.

SCP Program Fund Account:

Actual: In FY 2018, the earnings retained in the SCP Program Fund account were \$20.1 million, which included \$1.2 million carried over from FY 2017. After sequestration and SCP Program Fund costs, the SCP Program fund balance of \$14.6 million was carried over to FY 2019.

SCP:

The IRS did not hire any SCP in FY 2018.

⁷ Section 6307(a)—ESTABLISHMENT OF A SPECIAL COMPLIANCE PERSONNEL PROGRAM ACCOUNT—The Secretary shall establish an account within the Department for carrying out a program consisting of the hiring, training, and employment of special compliance personnel, and shall transfer to such account from time to time amounts retained by the Secretary under section 6306(e)(2).

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B. Current Fiscal Year (FY 2019) – Actual (Oct-Dec 2018) and Estimated (full year)

Private Debt Collection (PDC) Revenue:

Actual: In the first quarter of FY 2019, the PDC Program generated \$41.9 million in revenue (\$38.5 million commissionable payments and \$3.4 million non-commissionable payments).

Estimate: The IRS estimates by the end of FY 2019, the PDC Program will generate \$114.4 million in revenue (\$105.1 million commissionable payments and \$9.3 million non-commissionable payments). This estimate was affected by the increased volume of cases delivered to PCAs and the IRS's plan to deliver Business Master File (BMF) cases to PCAs in June 2019.

SCP Program Fund Costs (Contract Administration and SCP Program):

First Quarter FY 2019 (actual)

Actual Contract Administration Costs: In the first quarter of FY 2019, the total contract administration costs were \$962,115.

Actual SCP Program Costs: SCP Program costs were \$1 million in the first quarter of FY 2019.

Actual Total SCP Fund Costs: The total SCP Program Fund Costs were \$2 million in the first quarter of FY 2019.

Full Year FY 2019 (estimated)

Estimated Contract Administration Costs: In FY 2019, the IRS estimates \$5.9 million in Contract Administration Costs.

Estimated SCP Program Costs: The IRS estimates total FY 2019 SCP Program Costs of \$14.4 million.

Estimated Total SCP Program Fund Costs: The estimated total SCP Program Fund Costs for FY 2019 is \$20.3 million.

SCP Program Fund Account:

Actual: In the first quarter of FY 2019, the retained earnings were \$9.6 million. With the carryover balance from FY 2018 and after sequestration and costs, the SCP Program fund balance was \$21.6 million.

Estimate: The IRS estimates the total FY 2019 retained earnings will be \$26.3 million. With the carryover balance from FY 2018 and after sequestration and program costs, the the SCP Program fund balance is estimated to be \$20.2 million.

SCP:

The SCP completed training and started collecting revenue in December 2018. The total SCP revenue collected in the first quarter of 2018 was \$751,704. The IRS estimates that SCP revenue for full year FY 2019 will be approximately \$6.8 million.

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C. Following Fiscal Year (FY 2020) – Estimated (full year)

Private Debt Collection (PDC) Revenue:

Estimate: In FY 2020, the IRS estimates the PDC Program will generate approximately \$114.4 million in revenue (\$105.1 million commissionable and \$9.3 million non-commissionable payments).

SCP Program Fund Costs (Contract Administration and SCP Program):

Estimated Contract Administration Costs: The IRS estimates the FY 2020 contract administration costs will be \$6.1 million.

Estimated SCP Program Costs: The estimated SCP Program costs for FY 2020 are \$31.7 million. This figure includes the labor and indirect costs associated with hiring an additional 100 SCP for a total of 200 SCP employed in FY 2020.

Estimated Total SCP Program Fund Costs: The IRS estimates the FY 2020 total SCP Program fund costs will be \$37.8 million.

SCP Program Fund Account:

Estimate: The IRS estimates the total FY 2020 retained earnings will be \$26.3 million. With the estimated carryover balance from FY 2019 and after sequestration and program costs, the SCP Program fund balance is estimated to be \$8.7 million.

SCP:

Estimate: In FY 2020, the IRS estimates employing a total of 200 SCP. SCP will collect an estimated \$13.5 million in FY 2020. The estimated revenue collected is based on actual revenue collected in FY 2019.

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D. Data Table

The following SCP Program table contains the actual figures for FY 2018 and part of FY 2019 and estimates for full-year FY 2019 and FY 2020.

Special Compliance Personnel Program (SCPP)				
	FY 2018 (actual)	FY 2019 (Actual through December 13, 2018)	FY 2019 (Estimated Full Year)	FY 2020 (Estimated Full Year)
PDC Program Revenue				
Commissionable Payments	\$75,372,679	\$38,464,152	\$105,102,600	\$105,102,600
Non-Commissionable Payments	\$6,820,047	\$3,394,861	\$9,276,397	\$9,276,397
Total PDC Program Revenue	\$82,192,726	\$41,859,013	\$114,378,997	\$114,378,997
SCP Program Fund Costs				
Contract Administration Costs	\$4,341,020	\$962,115	\$5,944,140	\$6,063,131
Labor	\$1,729,743	\$409,077	\$2,500,000	\$2,550,000
Travel	\$83,374	\$10,210	\$85,000	\$87,000
Contracts	\$557,244	\$0	\$59,090	\$60,080
Background Investigations	\$337,322	\$156,550	\$939,300	\$958,086
Indirect	\$1,633,337	\$386,278	\$2,360,750	\$2,407,965
SCP Program Costs¹		\$1,033,964	\$14,387,820	\$31,711,914
Labor		\$531,802	\$7,400,000	\$16,310,196
Indirect		\$502,162	\$6,987,820	\$15,401,718
Total SCP Program Fund Costs	\$4,341,020	\$1,996,079	\$20,331,960	\$37,775,045
SCPP Fund Account				
Carryover Balance	\$1,248,452	\$14,599,481	\$14,599,481	\$20,157,729
Retained Earnings (25% of Commissionable Payments)	\$18,843,170	\$9,616,038	\$26,275,650	\$26,275,650
Sequestered Funds				
Returned from previous fiscal year	\$92,528	\$0	\$1,243,649	\$1,629,090
Current fiscal year	(\$1,243,649)	(\$596,194)	(\$1,629,090)	(\$1,629,090)
Available Fund Balance	\$18,940,501	\$23,619,325	\$40,489,689	\$46,433,379
Total SCP Program Fund Costs	(\$4,341,020)	(\$1,996,079)	(\$20,331,960)	(\$37,775,045)
SCP Program Fund Balance	\$14,599,481	\$21,623,246	\$20,157,729	\$8,658,334
Special Compliance Personnel (SCP)				
Number of SCP Hired/Employed²		100	100	200
Revenue Collected by SCP³		\$751,704	\$6,765,336	\$13,530,672

Source: SB/SE Finance and Operations Support/Data Management

¹ SCP Program costs refers to total salaries, benefits, employment taxes and IT/equipment costs for SCP employed or trained under the program starting 10/01/2018.

² Hired 100 SCP in FY18 and estimate another 100 SCP will be hired in FY20 - 80 contact representatives (CR), 5 CR leads, 5 CR managers, 1 telephone systems analyst, 1 department manager, 6 tax examiners (TE), 1 TE lead, 1 TE manager.

³ Actual FY18 revenue collected by SCP for the month of December reported in the Enforcement Revenue and Information System (ERIS).