

April 15, 2008

Dear Representative:

We are writing to express our strong support for H.R. 5719, the "Taxpayer Assistance and Simplification Act of 2008" which will be considered by the House this week. 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.

In September 2006, the IRS began turning over delinquent taxpayer accounts to private collection agencies (PCAs) who are permitted to keep up to 25 percent of the money they collect. We strongly believe the collection of taxes is an inherently governmental function that should be restricted to properly trained and proficient IRS personnel. We believe this misguided proposal is a waste of taxpayer's dollars, invites overly aggressive collection techniques, jeopardizes the financial privacy of American taxpayers and may ultimately serve to undermine efforts to close the tax gap.

According to the IRS, in FY '07, the PCAs brought in just \$32 million in gross revenue, far below original projections of up to \$65 million. After deducting commission payments to the PCAs, the net revenue from PCA collection activity was just \$20 million. Therefore, after spending \$71 million in start up and ongoing maintenance costs through the end of FY '07, the IRS private tax collection program lost more than \$50 million.

We also believe that sky high commission payments to the private contractors for work on the easiest to collect cases is unjustified and unnecessary. Under current contracts, private collection firms are eligible to retain 21% to 24% of what they collect. The legislation authorizing the program actually allows PCAs to retain up to 25% of amounts collected. These commission rates were never put up for competition. Before the initial bid solicitations went out, 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.

The problem of excessive commission rates was recently addressed by Congress in legislation overhauling the Department of Education's student loan program, which the IRS has consistently held up as a model for the IRS private collection program. The "Higher Education Access Act of 2007" enacted last year lowers from 23 percent to 16 percent the amount of recovered money that private collection agencies contracted by the government can retain on defaulted student loans. Why should private companies collecting taxes be allowed to retain 9% more?

The fear that allowing PCAs to collect tax debt on a commission basis would lead to contractor abuse was realized when the IRS confirmed that penalties totaling \$10,000 have been imposed by the IRS on the PCAs for taxpayer violations. In one instance, private collectors made 150 calls to the elderly parents of a taxpayer after the collection agency was notified he was no longer at that address.

While we strongly oppose the use of private collection agencies to collect federal taxes, we are committed to ensuring that each and every tax dollar owed is collected. The IRS already has a significant collection infrastructure with thousands of trained employees, including fourteen Automated Collection System (ACS) sites which allow the IRS to contact taxpayers by telephone and collect delinquent taxes. The ACS function is a critical Collection operation, collecting nearly \$1.49 million per employee per year. The IRS itself has acknowledged that ACS employees can collect taxes at a far lower cost than private companies—generating a return on investment of 13 to 1 against the significantly lower 4 to 1 return by using private tax collectors. The FY '08 omnibus appropriations bill acknowledges the benefit that increased ACS staffing can have on reducing the amount of unpaid taxes and increased funding for this function by \$7.35 million so that this work can be done by IRS employees. According to the

National Taxpayer Advocate, this investment of \$7.35 million in ACS employees will generate an additional \$146 million per year. By comparison, the IRS projected that the PCAs will bring in as little as \$23 million minus commission payments in FY'08.

Opposition to this program has also been growing within Congress. Since granting IRS the authority to use PCAs in the American Jobs Creation Act of 2004, the House of Representatives, with bipartisan support, has twice passed language prohibiting the IRS from moving forward with its private collection initiative. In addition, last session, the House overwhelmingly approved two separate tax bills (H.R. 3056, the "Tax Collection Responsibility Act of 2007" & H.R. 3996, the "Temporary Tax Relief Act of 2007") that would repeal IRS' authority to use private debt collectors to pursue tax debts.

The private tax collection program is also opposed by a growing number of tax experts including the National Taxpayer Advocate, the IRS Taxpayer Advocacy Panel and two former IRS Commissioners as well as numerous public advocacy and consumer groups. In addition, dozens of newspapers across the country, including the Washington Post, San Francisco Chronicle, Providence Journal, Tennessean, Indianapolis Star, Montgomery Advertiser, Nevada Sun and Arizona Republic have editorialized against the use of private collection agencies collecting federal taxes.

We ask for your support for H.R. 5719, the "Taxpayer Assistance and Simplification Act of 2008" when it is considered by the House this week. For more information on this issue, please contact Matt Socknat in NTEU's legislation department.

Sincerely,

National Treasury Employees Union (NTEU)  
American Federation of Government Employees (AFGE)  
American Federation of State County and Municipal Employees (AFSCME)  
National Active and Retired Federal Employees Association (NARFE)  
American Postal Workers Union (APWU)  
Professional Aviation Safety Specialists (PASS)  
Citizens for Tax Justice (CTJ)  
OMB Watch  
National Consumers League  
Consumer Federation of America  
Public Citizen  
USAction  
National Rural Letter Carriers Association