

September 19, 2006

Dear Senator:

Senators Byron Dorgan and Patty Murray along with several other Senators have introduced legislation (S. 3887) that would prevent the IRS from using private collection agencies to collect federal taxes. The undersigned organizations strongly support S. 3887 and urge you to co-sponsor this important legislation.

Under the IRS' private tax collection plan, millions of confidential taxpayer files will be turned over to an industry with a long record of abuse. According to the Federal Trade Commission, last year American consumers filed 66,627 consumer complaints against debt collection agencies, far and away the most of any industry. In addition, it is not clear that the IRS has instituted adequate security protections to ensure taxpayers' confidential financial information is not jeopardized. This fact is particularly of concern in light of a recent Federal Trade Commission report that more than 10 million consumers are victimized by some form of identity theft each year, costing consumers an additional \$5 billion in out of pocket expenses (FTC Identity Theft Survey Report, 2003).

We also have strong doubts about the fiscal soundness of the IRS' private tax collection initiative which would allow private collection firms to keep 21% to 24% of what they collect, depending on the size of the case. In testimony before Congress earlier this year, IRS Commissioner, Mark Everson admitted IRS employees could perform the work at far less cost than private collection companies if resources were provided to hire additional tax enforcement personnel. In addition, a September 2002 report by former IRS Commissioner Charles Rossotti to the IRS Oversight Board found that assigning more IRS employees to collection work could bring in roughly \$30 for every \$1 spent. At a time of large and growing federal budget deficits, we fail to see the logic behind the IRS plan to pay private collection firms nearly a quarter of every dollar collected, when internal IRS reports suggest it would cost the federal government just three pennies on the dollar to have trained IRS employees collect tax debts.

Furthermore, the IRS Restructuring and Reform Act of 1998 (RRA 98) specifically prevents employees or supervisors at the IRS from being evaluated on the amount of collections they bring in. But now, in direct conflict with RRA 98, the IRS wants to pay private collection agencies out of their tax collection proceeds, which will clearly encourage overly aggressive tax collection techniques, the exact dynamic RRA 98 sought to avoid. We have already seen instances of such abuse by collection companies involved in student loan and state revenue collection activities. In some of these cases, the severity of the violations led to the suspension or outright cancellation of the contract.

This is not the first time the IRS has tried this flawed program. Two pilot projects were authorized by Congress to test private collection of tax debt for 1996 and 1997. The 1996 pilot was so unsuccessful that the 1997 project was cancelled. An IRS Internal Audit Report (Ref.

No. 080805, 12/19/97) found that contractors made hundreds of calls to taxpayers during times prohibited by the Fair Debt Collection Practices Act (FDCPA), and did not protect the security of sensitive taxpayer information. In addition, the contractors did not bring in anywhere near the dollars they projected, and the pilot caused a \$17 million net loss.

It is clear to us that the IRS private tax collection initiative is an inefficient waste of taxpayer dollars and raises serious concerns about the financial privacy of American taxpayers. Therefore, we strongly urge you to co-sponsor S. 3887 and support its adoption as an amendment if offered to other legislation now pending in the Senate.

Sincerely,

CONSUMER FEDERATION OF AMERICA

NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
(NAACP)

NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION

NATIONAL CONSUMER LAW CENTER
(On Behalf of Its Low Income Clients)

NATIONAL CONSUMERS LEAGUE

CITIZENS FOR TAX JUSTICE

NATIONAL COUNCIL OF LA RAZA

U.S. PUBLIC INTEREST RESEARCH GROUP

NATIONAL TREASURY EMPLOYEES UNION