Private IRS Collectors Waste Taxpayer Money While Squeezing Low-Income Families

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Program costs three times the amount collected from financially-strapped taxpayers

Boston – New data from the National Taxpayer Advocate for the Internal Revenue Service (IRS) shows that a congressionally-mandated program requiring the IRS to use private debt collectors, like past efforts, targets financially vulnerable families while costing taxpayers three times more than it recovers.

IRS data show that 44% of taxpayers who made payments to the IRS after being subjected to private debt collectors had incomes below 250% of the poverty level ($24,200 for a family of four), and 28% made less than $20,000 per year. Meanwhile, the IRS private debt collection program cost $20 million to operate while only generating $6.7 million in revenue.

"The IRS private debt collector program is the epitome of waste and abuse in government programs," stated Chi Chi Wu, a staff attorney at National Consumer Law Center. "Forcing the IRS to use private debt collectors to put the squeeze on vulnerable low-income families simply lines the pockets of these private collectors while jeopardizing the economic well-being of families."

In her annual report to Congress, the National Taxpayer Advocate conducted an analysis of 4,141 taxpayers who made payments to IRS after being subjected to private debt collection. The analysis revealed that:

- 19% of these taxpayers had incomes below the federal poverty level, with a median income of $6,386;
- 25% had incomes above the federal poverty level but below 250% of that threshold, with a median income of $23,096; and
- 28% had annual income of less than $20,000.

The data also show that the private collectors – including one previously terminated from federal student loan collections for providing inaccurate information to borrowers – are pressuring families into making payments they cannot afford while meeting basic living expenses. The National Taxpayer Advocate reported that 45% of taxpayers who agreed to payment plans with private collectors had incomes that were less than their "allowable living expenses." This is a measure used by the IRS to estimate the amount of income needed to pay for essential living expenses, such as housing, utilities, transportation, food, and out-of-pocket healthcare costs. IRS payment plans are usually calculated to leave the taxpayer enough funds to pay for these living expenses; if taxpayers' income is below this amount, collection attempts are suspended. But it appears that private debt collectors may have squeezed taxpayers into agreeing to payment plans despite being too poor to pay. This means that financially strapped families could be left with insufficient funds to pay for life necessities, putting their health, shelter, or well-being at risk.

The IRS has tried using private collectors twice before and both attempts were big money-losers. The first attempt in the mid-1990s was scrapped a year after the program was launched, after losing $17 million. The second experiment began in 2006 and ended three years later after a net loss of almost $4.5 million to the government. This third attempt has resulted in a $13.3 million loss, and private collectors have only managed to collect less than 1% of the $920 million in tax debts assigned to them.

For this go-around, the IRS was forced by a 2015 law to place certain tax debts with private collectors. “Congress should repeal this wasteful use of taxpayer money and instead make a more responsible investment in funding for the IRS to do its job properly,” Wu urged.

Wu also noted that one of the four private collectors hired by the IRS includes Pioneer Credit Recovery (owned by Navient), whose contract to collect student loans was terminated in 2015 by the U.S. Department of Education because it provided inaccurate information to borrowers. Unfortunately, the Department, under Secretary DeVos, recently reversed the firing of Pioneer, which is also now seeking a new contract to collect federal student loan debts. Pioneer was also sued by the Consumer Financial Protection Bureau for providing bad information, processing payments incorrectly, and illegally cheating struggling borrowers out of their rights to lower repayments.