

## IRS Oversight Board

---

---

---

May 20, 2014

The Honorable Dave Camp  
Chairman  
Committee on Ways and Means  
United States House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

The IRS Oversight Board would like to express its support of the views presented by the National Taxpayer Advocate (NTA) in a recent letter to you on private collection agencies (PCA) and the proposed restoration and expansion of a private debt collection (PDC) program contained in S.2260, the Expiring Provisions Improvement Reform and Efficiency (EXPIRE) Act. The concept has already failed twice. When direct administrative costs are included, which the Joint Committee on Taxation failed to do, the program costs more to administer than the revenue retained. We concur with the NTA in that outsourcing federal debt collection is a bad idea and it makes little sense to resurrect, let alone expand the program to include the assignment of all “inactive tax receivables” to PCAs.

The IRS Oversight Board respectfully suggests that if Congress wishes to improve revenue collection, it should invest in IRS priority enforcement programs, such as the Automated Collection System (ACS) which has a proven 20:1 return on investment. Funding another private debt collection program is throwing good dollars after bad, and in our view, should be summarily rejected.

The Board is quite familiar with the two previous efforts at private debt collection of delinquent taxes owed the federal government. Although America’s taxpayers were promised a high return on investment from the collection of old debts, the opposite proved true. The NTA correctly notes that the IRS terminated the last version of the program after concluding it lost money – \$17 million – when opportunity costs, such as diverting IRS collection personnel to administer the PDC, were taken into account. In other words, there was a negative return on investment.

We fully agree with the NTA that no one has credibly argued that PCAs can collect taxes more efficiently than the IRS. Indeed, independent studies have confirmed that PCA firms did not outperform IRS employees. However, during the most recent failed PDC program from 2006-2009, ACS personnel stopped working their inventories so they could help the PCAs who could not resolve tens of thousands of cases. Ironically, if the almost \$68 million in total costs for the 2006 PDC effort had been invested in an additional 700 ACS Full Time Equivalent (FTE)

employees, they would have collected an estimated \$1.4 billion in enforcement revenue rather than the loss incurred by the PDC program.

Moreover, the PDC program never came close to being self-funded or operating independently of the appropriations process as promised. Under the existing PDC provision, the IRS could pay the PCAs up to 25 percent of the revenue they collect, and the IRS could retain up to 25 percent – known as the holdback – to cover the full costs of administering the program. If that were to happen, the program should raise revenue. But that assumption proved false.

During the last program, the 25 percent of revenue retained by the IRS was not enough to cover administrative costs of the program, so additional appropriated funds had to be used to make up the shortfall. Additionally, there were significant opportunity costs associated with spending these funds on PDC rather than doing the aforementioned ACS collection work.

We concur with the NTA that the current revenue-raising scenario painted by the Joint Committee on Taxation (JCT) for the proposed expansion of the PDC program is far too optimistic due to scoring issues. The Board understands that JCT only scores increases and decreases in tax receipts; it does not take into account administrative costs, which can be substantial and provide no return on investment. In fact, one of its own reports states: “The JCT staff does not estimate the administrative costs incurred by either the IRS or taxpayers that may result from proposed legislation.” (Source: Staff of the Joint Committee on Taxation, *Discussion of Revenue Estimation Methodology and Process*, JCS-14-92, at 11 (Joint Comm. Print 1992).) Indeed, the JCT estimate that the PDC program will raise \$2.4 billion over 10 years relies solely on gross receipts and assumes those receipts will come in for 10 years regardless of administrative costs.

From a private sector perspective, such an approach would be contrary to fiduciary responsibility and full financial transparency. What private sector company would make business decisions based solely on gross revenue while ignoring costs – and still stay in business? It is doubtful they would. It would be like a major construction firm making a bid for a contract without taking into account labor costs. In this regard, we believe the JCT should modify its 10-year revenue score for any PDC program.

Lastly, the Board has consistently stated – as has the NTA and Commissioner Koskinen – that the IRS can ill afford to implement yet another unfunded congressional mandate. During the last three-year PDC effort, the IRS had to absorb \$12.4 million out of appropriated funds. If legislation is enacted to create another PDC program, the IRS would incur significant start-up, ongoing oversight, information technology, quality review and other significant costs that were not planned for or budgeted. The IRS’ current budget situation is dire and heaping on additional costs will force the agency to make even more cuts to core service and enforcement programs to the detriment of the fiscal health of our nation and America’s taxpayers.

In conclusion, the Board believes resurrecting and expanding the unfunded Private Debt Collection concept is a bad idea. The experiment has failed twice and there is nothing to lead us

to believe it will not fail again. If Congress wishes to collect more tax revenue to shrink the budget deficit and the tax gap, it should reinstate the levels of funding for IRS collection programs with proven high returns on investment.

Sincerely,



Paul Cherecwich, Jr.  
Chairman

Identical letter sent to:

The Honorable Ron Wyden, Chairman, Committee on Finance

The Honorable Orrin G. Hatch, Ranking Member, Committee on Finance

The Honorable Sander Levin, Ranking Member, Committee on Ways and Means

The Honorable Charles W. Boustany, Jr., Chairman, Subcommittee on Oversight, Committee on Ways and Means

The Honorable John Lewis, Ranking Member, Subcommittee on Oversight, Committee on Ways and Means