Myths vs. Facts: The IRS Private Debt Collection Program

Created by Congress in 2015 with passage of the Fixing America's Surface Transportation Act, the IRS Private Debt Collection (PDC) Program is an innovative and efficient solution that seeks to increase U.S. Treasury funding and strengthen the IRS' customer service capacity to help collect billions in tax underpayments that would otherwise have not been collected.

Workforce shortages at the IRS have caused thousands of accounts in arrears to sit untouched for years, with $20 to 30 billion in tax underpayments lost each year as accounts age out of a 10-year statute of limitations. Resolving these workforce shortages and reducing this portion of the tax gap will provide the government with the resources to fund new and existing federal initiatives while adding more permanent internal IRS staff.

Unfortunately, a number of falsehoods have been circulated that greatly misrepresent how the program works. Here, we address common myths with the accompanying facts about the program.

MYTHS	FACTS
IRS PDC contractors aggressively target lower-income taxpayers, some of whom are receiving Social Security Disability Insurance (SSDI)--a group that was supposed to be excluded from the program.	**The IRS has the sole authority to choose and assign all accounts to PDC contractors. They do not receive any information about a taxpayer's level of income.**
IRS PDC contractors force Americans with financial hardships to pay more than they can afford to resolve their tax debts.	**Contractors rely solely on voluntary payment by the taxpayer. Those who express financial hardship are immediately referred back to the IRS and their account is returned back to the IRS.**
IRS PDC contractors unfairly penalize taxpayers who cannot pay.	**IRS PDC contractors have no enforcement authority and abide by a stringent set of rules to ensure taxpayer protection. Contractors are limited to only calling the taxpayer and working out voluntary payment agreements. Only the IRS can seize property, garnish wages, freeze bank accounts or contact third parties if they deem it necessary.** **PDC contractors are "prohibited from committing any act or omission which employees of the Internal Revenue Service are prohibited from committing in the performance of similar services." In addition to this safeguard, contractors must also abide by all provisions of the Fair Debt Collection Practices Act (15 U.S.C. 1692 et seq.).** **Contractor calls are monitored by the IRS and contractors are graded on implementation of taxpayer rights, customer service, statutory and contract requirements. Under a previous pilot program, the companies maintained extremely high quality levels (97 percent or above) for these requirements.**
The IRS is spending more to implement the program than the PDC program will bring in to the U.S. Treasury.	**Like any program in the public or private sector there are upfront one-time costs for standing up a new program. In this case, technology, communications and training protocols must be built – the costs of which would be incurred over the initial 2-year period. The IRS requires contractors to depreciate these costs and spread them out over the life of the program.** **Also, like private sector investments, generally accepted accounting principles require taxpayers to depreciate costs like these and spread them out over the life of a program to better match cost with income. Similarly, over time, these upfront costs will be recovered by the program.** **Additionally, to ensure compliance with all taxpayer rights the IRS is implementing the program gradually over the first two years, then the program can expand to full capacity. More than 50 percent of the funds collected go to the U.S. Treasury with another 25 percent of recoveries going to the IRS to expand their internal collection capabilities.**
Scammers will harm taxpayers by posing as a representative of the IRS PDC program.	**Only taxpayers who have received several IRS notices and many opportunities to appeal their tax liability will be contacted by the IRS PDC program. Both the IRS and the IRS contractor contact taxpayers in writing to advise that their account has been assigned to a specified private recovery company that serves as a contractor for the IRS. The letter includes a unique code that needs to be confirmed to the taxpayer to confirm the authenticity of any contact. Taxpayers then receive a phone call introducing them to the IRS contractor, explaining the process and confirming authenticity by checking the code from their letter. During each phone call, the representative takes the taxpayer through a multi-question authentication process to verify the contractor's identity and protect the taxpayer's privacy.**
IRS employees would do a better collection job at less cost than private contractors.	**It is important to keep in mind that revenue collected by the private debt collection companies would not likely be collected by the government otherwise. Therefore, paying the companies from a portion of what is actually collected is an effective investment by the government. The return on investment (ROI) for the program is within the average ROI of all collection methods used by the IRS.** **The IRS internal costs for collecting taxes vary widely from very little for offsets from tax refunds under the automated collection system, to expensive field collection activities. According to IRS commissioner testimony about a previous pilot program: "overall, the IRS's ROI is about 4 to 1. ROI resulting from IRS enforcement programs ranges from $3 to $14 for every additional $1 invested. The Private Debt Collection ROI will range … from 4.0:1 to 4.3:1…"**

The **IRS Private Debt Collection (PDC) Program** is a successful public-private partnership that returns vital funding to the U.S. Treasury, ensures fairness in the tax system and offers collaborative solutions that help Americans achieve a zero tax balance.

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