PARTNERSHIP FOR
tax compliance

A PRIMER ON THE IRS PRIVATE DEBT COLLECTION PROGRAM

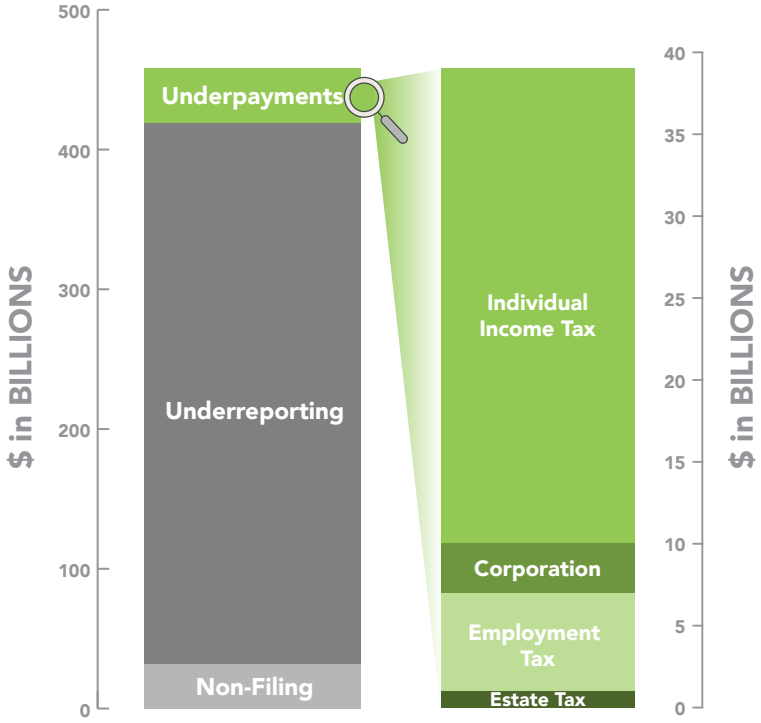
KEY FACTS AND DATA FOR THE NEW CONGRESS

JUNE 2019

Bridging America's Tax Gap

The Internal Revenue Service (IRS) estimates that the difference between the total amount of taxes owed and taxes paid, known as the tax gap, currently exceeds $400 billion. The uncollected revenue that makes up the U.S. tax gap is generally broken into three categories – those who have not filed taxes, those who have underreported taxes owed and those who have underpaid their taxes.

With concerns rising about our nation's deficit and the ability to sustain vital federal programs, Congress sought innovative solutions to increase the collection of legitimately owed tax revenue to bolster the U.S. Treasury.



* According to the IRS, 2016

The IRS Private Debt Collection program works to recover uncontested tax underpayments to bolster the U.S. Treasury.

WHAT IS THE PDC PROGRAM?

$131 billion
The IRS PDC Program works to collect this active uncontested tax underpayment revenue

Each year, another **$39 billion** in new underpayments enters the system for collection

$20-30 billion becomes uncollectable due to the 10 year statute of limitations expiring

A Bipartisan Effort to Increase Federal Revenue

In December 2015, Congress, as part of bipartisan legislation, mandated the creation of the Internal Revenue Service (IRS) Private Debt Collection (PDC) Program within Section 32102 of the Fixing America's Surface Transportation (FAST) Act. The PDC program leverages private sector expertise to expand the customer service capacity of the IRS to conduct outreach to taxpayers who owe a particular subset of federal tax revenue – tax underpayments – and determine their ability to pay their tax debt. Four high-quality firms were selected to partner with the IRS for this effort: CBE Group, ConServe, Performant, and Pioneer Credit Recovery.

A tax underpayment occurs when a taxpayer appropriately files their tax return but has not paid the taxes that are due. In 2017, tax underpayments totaled more than $131 billion in legitimately owed, but uncollected federal revenue.

Due to reduced IRS funding since 2010, the agency has needed more capacity to work to collect a significant portion of tax underpayments. As a result, millions of accounts have sat inactive while $20 to 30 billion in tax revenue is lost each year as accounts age out of the 10-year collection statute of limitations.

The government's innovative partnership with private recovery companies focuses on providing resources to increase collection of tax underpayments to strengthen the U.S. Treasury and the internal collection capacity of the IRS, while helping American taxpayers achieve a zero tax balance by providing purely voluntary installment plan options, tailored to their particular budget. This approach allows the IRS to collect more tax revenue and from that revenue generate the resources that will allow them to hire and train new internal collections staff all while providing better customer service.

Recent press statements issued by the two sponsoring Senators, Schumer (D- NY) and Grassley (R-IA), demonstrate ongoing bipartisan agreement that the IRS and its private sector partners are successfully executing the PDC program – returning millions to the federal budget and funding new jobs across the country, including additional internal staff at the IRS without requiring any additional appropriations.

How The PDC Program Works

While most taxpayers file and pay their taxes on time, some get behind on paying their taxes for a wide variety of reasons – feeling overwhelmed by the paperwork, or too busy to follow-up with the IRS, others have been side-tracked by a disruption in their life or find themselves facing a temporary financial hardship that later passes.

The PDC program is collaborative and treats every taxpayer fairly. No one is asked to pay more than their fair share and only when they are able.

Taxpayers receive dozens of notices and many opportunities to appeal their tax liability at various levels of the process. If the underpaid tax account remains in the IRS queue for longer than 3 years or the case has been assigned to IRS personnel but not touched in more than a year, the agency categorizes these debts as "inactive." The private debt collections program focuses on outreach to these inactive accounts.

To begin, the IRS initiates contact sending taxpayers and their tax representative, as applicable, a written notice that accounts have been assigned to a specified private recovery company that serves as a contractor for the agency. That IRS contractor then sends a second letter to the taxpayer and their tax representative advising them of the account assignment.

The taxpayer then receives a call introducing them to the IRS contractor and explaining the process. During each phone call, the program representative takes the taxpayer through a high security, dual authentication process to verify identity and protect the taxpayer's privacy.

PDC program representatives must follow provisions of the Fair Debt Collection Practices Act and the Taxpayer Bill of Rights. The representative confirms that the taxpayer is aware of his or her rights; for example, the right to quality service and right to appeal.

How Taxpayers Experience the PDC Program

Program Awareness

Taxpayers receive a letter from the IRS about the Private Debt Collection Program that includes an authentication number to confirm they are speaking to the appropriate entity.

Authentication

- An IRS PDC contractor reaches out by phone to reiterate the details of the program.
- Walks the taxpayer through a high security, dual authentication process.
- The representative asks the taxpayer to confirm their contact information.

Full Disclosure

The representative provides a disclosure overview that details:

- The name of the IRS contractor company
- Who the taxpayer is speaking with and employee number
- The taxpayer's current balance owed to the IRS
- Information obtained will only be used for the purpose of IRS tax collection
- A statement that the Fair Debt Practices Act protects taxpayers from debt collection abuses

Taxpayer Rights

The representative asks the taxpayer if they have received IRS Publication 1 outlining their rights as a taxpayer. If the taxpayer has not received it, the representative reviews it with them.

Pay in Full

- If the taxpayer can pay within the next 120 days, the representative provides an overview of how they can make payment directly to the IRS via a variety of payment methods.
- If the taxpayer responds that they cannot pay the balance due to financial hardship, the taxpayer is referred back to the IRS and the contractor returns the account back to the IRS.
- Payment in full benefits the taxpayer, saving them from accruing IRS interest and penalties.

OR

Negotiate a Payment Arrangement

- If the taxpayer cannot pay in full within 120 days but can settle the debt over time, they may qualify for a payment arrangement.
- A payment arrangement is possible once the taxpayer files all outstanding tax returns and if the balance is under $100,000.
- There are two types of payment arrangements offered:
  - Balance is paid within 60 months or within the collection statute, no IRS approval is needed.
  - Plans of 60 to 84 months require IRS approval.
- If these payment options do not work, the representative asks what the taxpayer can afford and works to set up a plan to fit their budget.
- If it would be a hardship to pay the debt, the tax payer is referred back to the IRS and the account is returned to the IRS.

Taxpayer Debt Satisfied

COLLABORATIVE INTERACTION AND POSITIVE OUTCOMES: EVERYONE WINS

The PDC representative discusses a variety of payment options. Taxpayers can choose to pay their account in full within 120 days or build a payment plan tailored to their particular budget. If a taxpayer shares that they cannot pay their tax obligation, even over time through a payment plan, they are removed from the PDC program and their account is referred back to the IRS. Participation in the PDC Program is purely voluntary and those participating also have the ability to restructure their payment plans along the way if their circumstances change.

Taxpayers are advised how to make payments directly to the IRS using their preferred method of payment.

Bolstering IRS Collections: New Staff

In addition to collecting higher levels of federal tax revenue, the PDC Program also generates revenue that directly supports and strengthens the IRS's internal collection capabilities.

A portion of the taxes collected by the PDC Program infuse resources into the IRS Special Compliance Personnel Program Fund, which allows the agency to hire and train new internal enforcement staff and increase efficiency and responsiveness to the needs of American taxpayers. The staff requires no new federal spending.

Ensuring Trust: Protecting Taxpayers Privacy

Before any outreach to taxpayers, the IRS requires contractors to successfully pass rigorous testing, technical reviews, site visits and audits. Further, all employees are reviewed and cleared by the U.S. Office of Personnel Management (OPM) to ensure integrity.

PDC contractors abide by a stringent set of rules that ensure taxpayer protection. First, 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."6 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.). In short, the usual IRS standards all apply.

IRS contractors adhere to the same requirements as the IRS in keeping taxpayer data safe, as specified in IRS Publication 4812. Both the IRS and Treasury Inspector General for Tax Administration (TIGTA) audit the security and privacy protocols utilized by the PDC contractors to ensure compliance with statutory and contract requirements.

Verify: Compliance and Customer Satisfaction

IRS contracts also require that contractor calls are monitored and each company is continually graded on the implementation of taxpayer rights, customer service and statutory/contract requirements.

Taxpayers are surveyed at the end of each interaction with a program representative to gauge their experience. To date, taxpayers report a 93 percent satisfaction rate with the PDC Program.

It is important to keep in mind that under the Internal Revenue Code, 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.

If a taxpayer cites financial hardship, program representatives refer the case back to the IRS and cease contact with the taxpayer.

Income Level Is Not Considered or Known

It's important to know that tax underpayment accounts come from a broad cross section of all income groups within the U.S. economy. The IRS selects accounts in arrears to enter the PDC Program. Income level is not a factor in whether an account is assigned, and the private collection agencies do not receive any information about the taxpayer's level of income. Meaning, there is zero ability to conduct outreach specifically to low, middle or high income taxpayers. Everyone is treated equally.

PDC contractors have no enforcement authority, and rely solely on the taxpayer's voluntary participation in the program's customized payment plans. As a result, taxpayers with the means to do so are those likely to participate and those with financial hardships are referred out of the PDC program and back to the IRS.

Cost Effectiveness Is Key

The revenue collected by PDC contractors are funds that were not collected by the federal government, having been previously regarded as uncollectable. Today, the PDC Program provides the IRS with private sector skills and resources to effectively help the agency collect this important segment of legitimately owed tax revenue.

While IRS agents focus on collecting recently created tax debts, the PDC Program focuses on conducting outreach to collect older tax debts - generally those that are more than 4 years past due. Collections of older debts require a much greater effort, as taxpayers may have relocated. So, while PDC collections are more difficult due to the age of the debts assigned, the program's self-funding model ensures an optimized return on investment.

More than 50 percent of the tax revenue generated by the PDC Program goes directly toward bolstering the federal budget, while another 25 percent of the collected funds directly strengthens the future internal collection capabilities of the IRS through their Special Compliance Personnel Program Fund.

PDC contractors are paid from a remaining portion of what was collected, ensuring 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, approximately $4 for every $1 spent.

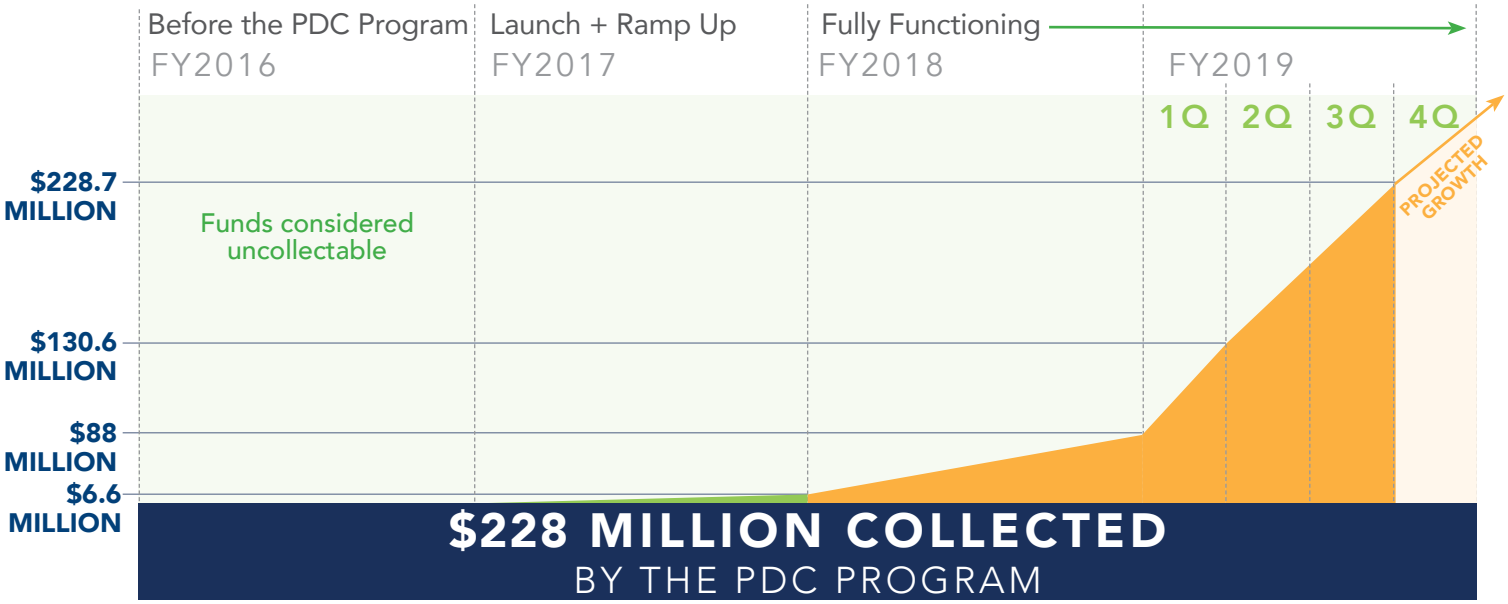
The IRS Special Compliance Personnel Program Fund totals

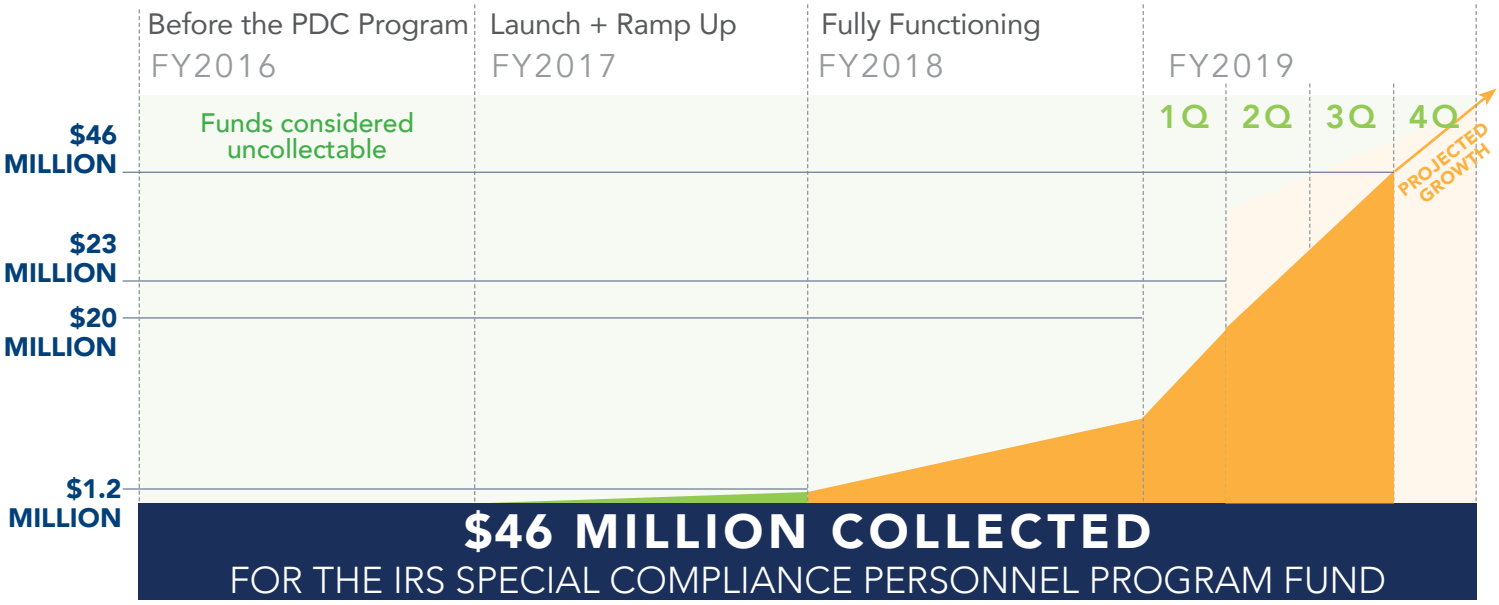
$46 MILLION

which has allowed the IRS to hire and train:

The Latest Data on the IRS
Private Debt Collection Program

The PDC Program has proven to be a cost effective solution for the federal government. Following is an overview of the latest quarterly PDC program data reported by the IRS in through June 13, 2019.





NUMBER OF INSTALLMENT AGREEMENTS IN PROCESS:
34,121

CUSTOMER SERVICE SATISFACTION SCORE:
93%

PDC PROGRAM QUALITY SCORES*:

Customer Accuracy	**99.7%**
Professionalism	**99.9%**
Timeliness	**99.8%**
Regulatory Accuracy	**98.5%**
Procedural Accuracy	**97.2%**

The IRS Private Debt Collection Program is off to a strong start – fully cash positive in its first year and paying for itself from collections. The program was rolled out slowly to ensure compliance with IRS rules and regulations for customer outreach.

As the program moves forward, all upfront costs to build the program, the technology used and train PDC contractors have been covered. Ongoing program costs will now reduce to maintenance levels.

At the same time, the IRS has begun ramping up the program, currently sending approximately 40,000 new cases per week to PDC contractors for outreach. Revenue collected is therefore projected to grow exponentially – as current installment plans continue to be paid over time and new installment agreements begin.

In addition, the funds generated by the IRS PDC Program to support the hiring and training of new internal agency collections personnel will bear fruit in 2019, as the IRS begins its process to hire new staff. For example, the program has thus far raised $46 million to increase internal IRS capacity. As of this date, the PDC Program has provided the IRS with the ability to hire and train 200 new field collection agents.

THE IRS PRIVATE DEBT COLLECTION PROGRAM WORKS
FOR TAXPAYERS • FOR THE IRS • FOR THE U.S. TREASURY

The PDC Program is successfully strengthening the financial solvency of the federal government while providing a significant portion of taxpayers — who were previously not paying their past due taxes — a manageable, customized and purely voluntary path to achieving a zero balance with the IRS.

To learn more about the PDC program, read the latest news or sign up for updates from the Partnership for Tax compliance, visit:

partnershipfortaxcompliance.org

PARTNERSHIP FOR tax compliance

Additional PDC Resources

MYTHS VS. FACTS

Understand the facts and learn more about common misperceptions of the PDC program.

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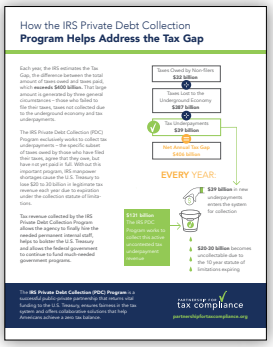

UNDERPAYMENTS OVERVIEW

A look at how the IRS PDC Program helps address the tax gap.

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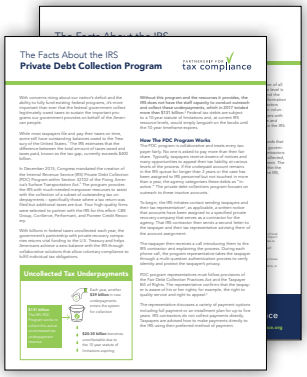

ABOUT THE PROGRAM

An overview of the how the IRS PDC Program works to return money to the U.S. Treasury.

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HOW THE PDC PROGRAM WORKS

A flow chart overview of how taxpayers experience the IRS PDC Program.

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