IRS to Use Bounty Hunters to Collect Taxes

By Jim Kouri

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In 2005, taxes owed with collection potential had grown to $132 billion. That number may climb in 2006, with perhaps $150 billion owed by taxpayers in default.

The Internal Revenue Service has not pursued some tax debt due to limited resources, manpower constraints and higher priorities. As a result, the US Congress has authorized the IRS to contract with private collection agencies (PCA) to help collect tax debts.

The IRS developed a Private Debt Collection (PDC) program to start with a limited implementation in September 2006 and fuller implementation expected in January 2008.

Unfortunately, according to the Center for American Progress, the structure of the IRS program encourages abuse. Under the program, collectors are awarded as much as 25 cents of every dollar they collect, in addition to a $100 bonus for every account they close.

This provides incentives for collectors to push the limits of legality to extract a little more revenue from their targets. As part of the IRS Restructuring and Reform Act of 1998, Congress, fearing overly aggressive collection practices, explicitly prohibited the IRS from compensating its own collectors based on the amount of money they collect. If Congress believes that incentive-based pay will cause official IRS collectors to cross the line, why would they think private collectors would behave any differently?

Taken together, IRS's actions were intended to ensure that the PCAs will be able to do the job and work the range of cases assigned, IRS will have the necessary resources and caseload ready, and taxpayer rights and data will be protected.

As a result, the IRS risks not providing complete information that decision makers would find useful. Finishing work on the factors could help achieve but cannot guarantee program success, which also depends, in part, on how IRS addresses the factors and identifies and resolves any problems in the limited implementation phase.

Although IRS officials indicated that the purpose of the limited implementation phase is to assure readiness for full implementation using up to 12 private collection agencies, the IRS has not yet documented how it will identify and use the lessons learned to ensure that each critical success factor is addressed before expanding the program starting in January 2008.

Because program success will be affected by how well IRS makes adjustments, assessing the lessons learned in limited implementation is critical. Also, IRS has not documented criteria that it will use to determine whether the limited implementation performance warrants program expansion.

IRS officials indicated that they are considering criteria that could trigger a go/no go decision, such as the amount of taxes collected and indications of PCAs abusing taxpayers or misusing taxpayer data.

The Internal Revenue Service proposal of paying private debt collectors a 25 percent commission to collect unpaid tax debt is meeting with bipartisan resistance from Congress. They claim the proposal will jeopardize the rights and privacy of American taxpayers. Several organizations voiced their objections to the IRS proposal and have expressed their strong support for this important consumer protection legislation Rep. Chris Van Hollen introduced: Citizens for Tax Justice, Consumer Federation of America, Consumers Union, National Consumer Law Center, National Consumers League.

Paying private debt collectors on a commission basis will be costly and will threaten the rights and privacy of the American taxpayers. We must ensure, as this resolution seeks to do, that federal tax collection functions will not be handed over to private sector bounty hunters.

Critics of the private collection agency program say that, compared with private debt collectors, whose bad apples star in countless horror stories of debtor abuse and intimidation, the IRS's customer-service-based approach may start looking pretty good to taxpayers.

A recent Center for American Progress report noted that "19% of all complaints received by the Federal Trade Commission (FTC) in 2005 were related to debt collectors, up from 10.5% in 1999. The FTC received more complaints about debt collection in 2005 than about any other industry — 66,627, a 560% increase over the last six years." The report's writers claim this will likely occur with private agencies working on behalf of the IRS.

IRS officials say they will have a little more than a half year to identify the lessons learned before incorporating them into the next contract solicitation, which IRS intends to release in March 2007.

Related to such decisions on expansion is IRS's planned comparative study of using PCAs. That study is to compare using PCAs to investing IRS's operating costs into having IRS staff work IRS's "next best" collection cases. Under the documented study design, IRS would exclude the fees paid to PCAs from the costs and subtract those fees from the tax debts collected by PCAs.

While such a study might produce useful information, it will not compare the results of using PCAs with the results IRS could get if given the same amount of resources, including the fees to be paid to PCAs, to use in what IRS officials would judge to be the best way to meet tax collection goals.

Adequately designing and implementing the study is important to ensure policymakers are aware of the true costs of contracting with PCAs and know whether PCAs offer the best use of federal funds, while using the least abusive and intrusive tactics to collect tax money owed.

But taxpayer advocate Nina Olsen says that collecting tax revenue is the core job of the IRS, and it should continue to bear that responsibility while protecting taxpayer rights. IRS employees cost only 3 cents for every dollar they collect, making them many times more cost-effective than private collectors.

Jim Kouri, CPP is vice-president of the National Association of Chiefs of Police and he's a staff writer for the New Media Alliance (thenma.org). He writes for police and security magazines including Chief of Police and Police Times.

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