FOR IMMEDIATE RELEASE: JULY 24, 2015
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Senate Bill Would Expose Taxpayers to Potential Abuse
While Lining Private Debt Collectors' Pockets

(BOSTON) Today, a coalition of national and state consumer and civil rights groups (including the National Consumer Law Center on behalf of its low-income clients) sent a letter opposing language buried in the U.S. Senate Highway Trust Fund bill that would ***require*** the IRS to use private debt collectors to collect tax debt.

Consumer and civil rights groups are concerned that the use of private debt collectors to collect taxes will harm taxpayers, by exposing them to potential abuses that are unfortunately common with that industry. It will also disproportionately impact low-income taxpayers. Finally, the use of private collectors will be a waste of taxpayer dollars. A prior program in 1996-1997 resulted in a $17 million net loss to the government, and a program in the mid-2000s created a net loss of almost $4.5 million even though the private collectors earned more than $16 million in commissions.

"Forcing the IRS to use private debt collectors is a recipe for taxpayer abuse," said National Consumer Law Center staff attorney Chi Chi Wu, "It will harm taxpayers, predominately low-income, in order to enrich the coffers of debt collectors."

Coalition letter sent to members of the U.S. Senate:

July 24, 2015

Dear Senator:

The undersigned consumer and civil rights groups are writing to express our strong opposition to Section 52106 of the Highway Trust Fund bill. That provision purports to help offset the cost of an extension of the Highway Trust Fund by forcing the Secretary of Treasury to contract with private debt collection agencies to collect all "inactive" tax debt.

We believe that requiring the use of private debt collectors to collect tax debts will harm taxpayers by exposing them to potential abuses that are unfortunately common with that industry. It will also disproportionately impact low-income taxpayers. Finally, the use of private collectors is a waste of taxpayer dollars, lining the pockets of private companies at the expense of the U.S. Treasury.

As you know, the IRS has tried to use private debt collectors in the past with dismal results, in both 1996-97 and in the mid-to-late 2000s. The latter program resulted in a number of complaints, including one case in which a private debt collector made 150 calls to the elderly parents of a taxpayer. One of the three original private collectors was dropped by the IRS for questionable practices, and thousands of dollars in penalties were levied on private collectors for violations of taxpayer rights.

Section 52106's requirement to use private collectors would needlessly expose taxpayers to abuses by the single most-complained about industry in the financial sector. Year after year, the Federal Trade Commission receives more complaints about debt collectors than any other specific industry, over 200,000 complaints filed in 2013. The Consumer Financial Protection Bureau (CFPB) has reported that, for the past 22 months, the most-complained-about financial product or service has been debt collection, constituting 32 percent of complaints filed with the CFPB last month. In total, the CFPB has received 163,000 complaints involving debt collection, including 458 against The CBE Group, one of the private collectors used in the mid-2000s to collect IRS debt.

Indeed, we have seen numerous abuses by private debt collectors used to collect another type of government debt – student loans. Common problems include aggressive and abusive collection tactics, and failure to accurately inform borrowers of their rights. In many cases, private collectors do not know about (or claim not to know about) borrowers' rights, such as the right to loan cancellation or an affordable repayment plan. Other times, as a 2014 GAO report documented, private collectors gave inaccurate or misleading information about borrowers' rights and options. We fear the same will happen again with private collection of IRS tax debts, and that collectors will fail to inform taxpayers of their rights to certain programs, such as an Offer in Compromise. Indeed, the abuses by private collectors in student loan collection are so bad that one of the top priorities for consumer advocates working on student loan issues is terminating the use of private collectors.

The National Taxpayer Advocate has noted that a prior version of Section 52106 "appears to place a bulls-eye on the backs of low income taxpayers." This is because, according to an IRS analysis, 79% of the cases that would likely be required to be referred to private debt collectors involve taxpayers with incomes below 250 percent of the federal poverty level. During the mid-2000s program, the average income of taxpayers assigned to private collectors was significantly less than the income levels of taxpayers whose cases were worked by IRS employees.

The use of private collectors has repeatedly been shown to be a waste of taxpayer dollars. The 1996-1997 pilot resulted in a $17 million net loss to the government, while the mid-2000s program resulted in a net loss of almost $4.5 million. Meanwhile, the private collectors earned more than $16 million in commissions during the latter program. A 2013 study by the National Taxpayer Advocate found that the IRS employees were significantly more effective in collecting taxes than private collectors.

We strongly urge you to oppose Section 52106 of the Highway Trust Fund bill or any provision that would force IRS to use private debt collectors to collect taxes on a commission basis.

Sincerely,

Americans for Financial Reform

National Consumer Law Center (on behalf of its low-income clients)

Bet Tzedek Legal Services

Center for Digital Democracy

Center for Economic Justice

Center for Responsible Lending

Consumer Action

Consumer Federation of America

Consumers Union

NAACP

National Consumers League

National Council of La Raza (NCLR)

National Fair Housing Alliance

National People's Action

Woodstock Institute

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Since 1969, the nonprofit **National Consumer Law Center®** (NCLC®) has worked for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training. **www.nclc.org**