

Consumer Advocates Disappointed Private Debt Collectors Will Begin Collecting Federal Tax Debts

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Program May Increase Scams Involving Phony Tax Collections

(WASHINGTON) Consumer advocates expressed disappointment over an announcement that four private debt collection companies were selected to collect federal tax debts, one of which had been terminated last year by the U.S. Department of Education. On September 26, the IRS announced that private debt collectors will begin collecting tax debts next spring. Pioneer Credit Recovery, whose contract to collect student loans was terminated last year by the U.S. Department of Education because it provided inaccurate information to borrowers, is one of the companies the IRS will use.

The IRS was forced to outsource collection of certain overdue tax debts by a law passed by Congress last December. The law requires the IRS to outsource tax debts to private collectors if:

- (1) more than one year has passed without any interaction between the taxpayer and IRS;
- (2) one-third of the statute of limitations has lapsed and there is no IRS collector assigned; or
- (3) the IRS is otherwise not working the debt due to lack of resources.

"Despite the fact that that past experiments with private collectors failed and lost money, Congress forced the IRS to hire the most complained about industry in the financial sector to undertake a vital and core government function," stated Chi Chi Wu, staff attorney at the National Consumer Law Center. "This is a terrible development for taxpayers."

Advocates also expressed concern that hiring private debt collectors will add to the problem of scam artists who pose as IRS collectors. Currently, the IRS has a policy of never calling to collect without first mailing a notice, and has urged consumers to ignore scam calls. When private collectors begin calling taxpayers regarding back taxes, it will add to the confusion and make consumers more vulnerable to these scams.

"Tax scams are #1 in the list of Top Scams according to the Better Business Bureau, noted Linda Sherry, director of National Priorities at Consumer Action. "Forcing the IRS to place tax debts with private collectors is about the worst thing that Congress could have done to make these scams even more dangerous."

Even with a private collector, the taxpayer should receive at least two written notices before getting any phone calls. Also, taxpayers are not required to deal with private collectors and can always ask that their account be returned to the IRS itself. The private debt collectors will be required to follow the Fair Debt Collection Practices Act which allows consumers to send a letter telling a debt collector to stop contacting them.

"Telephone calls from scam artists pretending to be the IRS are extremely common, according to Bet Tzedek Tax Clinic Director Anna Barsegyan. "Bet Tzedek's Tax Clinic has been receiving an increase of calls from our clients who have been contacted by these scam artists demanding payment by

using threats. Placing tax debts with private collectors makes all taxpayers more vulnerable to being defrauded by these scams.”

Finally, advocates have urged the IRS to put in place several measures to protect taxpayers, such as excluding low-income taxpayers from the program as well as taxpayers who owe debts under the Affordable Care Act. In August, several dozen consumer, low-income taxpayer, and other groups sent a letter urging IRS to adopt these measures.

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