

**The IRS Private Debt Collection Program —
A Comparison of Private Sector and
IRS Collections While Working Private
Collection Agency Inventory**

SECTION SIX

The IRS Private Debt Collection Program — A Comparison of Private Sector and IRS Collections While Working the Private Collection Agency Inventory¹

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EXECUTIVE SUMMARY

Introduction

In 2004, Congress passed the American Jobs Creation Act, which granted the IRS the authority to contract out collection of past due taxes to private collection agencies (PCAs).² The original intent of the program was to address the buildup of potentially collectible inventory that was not being worked by the IRS.³ The PCAs would help collect the aging receivables in exchange for commissions based on the amounts collected.⁴

In September 2006, the IRS began assigning taxpayer accounts to PCAs,⁵ but the PCAs' authority to work these cases was limited, given that certain actions are considered inherently governmental and therefore could not be delegated to private entities. For instance, PCAs could not determine or negotiate the amount of a taxpayer's liabilities, and the only cases PCAs could resolve were those in which the amount was not in dispute. The IRS assigned PCAs the following types of cases:

- Cases that involved an individual taxpayer with a balance due for only one tax period and \$25,000 or less due from September to December 2006; and
- Cases that involved an individual taxpayer with a balance due for one or more tax periods and \$100,000 or less due from January 2007 to February 2009.

These cases, called Potential New Inventory (PNI) accounts, fell into three categories:

1. Queue – Accounts awaiting assignment to the collection field function (CFF) but suspended (*i.e.*, not being worked);
2. Shelved – Accounts not being worked due to IRS resource limitations; and
3. Unable to contact or unable to locate (UTC/UTL) – Accounts where the IRS is not able to contact or locate the taxpayer.

The Private Debt Collection (PDC) program continued for nearly three years before the IRS ended it. In total, the IRS placed about \$1.8 billion (357,449 tax modules⁶) of outstanding tax liabilities with the PCAs for collection.⁷ Upon ending the program, the IRS committed to working the tax modules recalled from the PCAs. This report examines the results the IRS obtained while working the inventory recalled from the PCAs and analyzes whether the IRS or the PCAs performed better when working the PCA inventory.

2 The American Jobs Creation Act of 2004, Pub. L. No. 108-357, § 881(e), 118 Stat. 1418 (2004), providing in pertinent part: (e) BIENNIAL REPORT. — The Secretary of the Treasury shall biennially submit (beginning in 2005) to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives a report with respect to qualified tax collection contracts under section 6306 of the Internal Revenue Code of 1986 (as added by this section) which includes — (1) a complete cost benefit analysis.

3 In 2003, the IRS had a backlog of receivables of approximately \$120 billion which was growing at approximately four percent per year. See General Accounting Office (GAO), GAO-04-492, *Tax Debt Collection, IRS Is Addressing Critical Factors for Contracting Out but Will Need to Study the Best Use of Resources* 1 (May 2004).

4 *Id.*

5 Three private collectors were used in the first phase of the initiative: CBE Group Inc. of Waterloo, Iowa; Linebarger, Goggan Blair & Sampson of Austin, Texas; and Pioneer Credit Recovery, Inc. of Arcade, N.Y. Internal Revenue Service News Release, IR-2006-42 (March 9, 2006). Linebarger was let out of its contract in March of 2007.

6 The IRS computer system creates a separate module in its master file for each return a taxpayer files. Activities affecting a particular tax return are recorded in the module corresponding to that return.

7 IRS, Filing and Payment Compliance Advisory Council (Oct. 19, 2009).

Methodology

TAS compared the results for the IRS and PCAs while these entities worked the PCA Inventory. For this analysis, the IRS provided a list of all taxpayers whose accounts were assigned to a PCA, including the dates the cases were assigned to the agency and returned to the IRS. TAS used this list to determine when cases were under PCA control and when they were under IRS control.

TAS used the IRS Accounts Receivable Dollar Inventory (ARDI) to pull data on the balance owed at the time of case assignment, at six-month intervals after assignment, and at resolution for both the PCAs and the IRS.⁸ We used the IRS collection status code history file to determine when cases were resolved and what their status was when they returned to the IRS.⁹ Finally, we used the IRS Master File transaction history to determine the type and timing of payments received on the account, both while under PCA and IRS control. We broke out offset payments separately, rather than crediting them to the PCAs or IRS, since they happen automatically, rather than as a direct result of PCA or IRS collection efforts.¹⁰

Limitations

Because IRS worked the PCA inventory after recall, our analysis comparing IRS and PCA results while working the PCA inventory places the IRS at a significant disadvantage to the PCAs. The liabilities were older on return to the IRS¹¹ and the PCAs had already had an opportunity to close the easy cases. Thus, outcomes showing superior IRS performance are conservative.

TAS used data supplied by the IRS to identify the tax modules worked by the PCAs and subsequently recalled by the IRS. The analysis does not include the tax modules for several hundred invalid taxpayer identification numbers (TINs) we found in the IRS files. In total, TAS identified 349,586 valid tax modules with tax liabilities totaling about \$1.6 billion; these are the modules included in the analysis. As discussed above, this contrasts with the \$1.8 billion (357,449 tax modules) of outstanding tax liabilities the IRS reported it placed with the PCAs for collection.¹²

8 For unresolved PCA cases, TAS used the ARDI to determine the balance due on the date the case was recalled by the IRS. We continued to give the PCAs credit for payments received up to two weeks after recall, since the payments likely resulted from PCA collection efforts.

9 Status codes show the status of a taxpayer account at a particular point in time, such as whether the taxpayer has an outstanding liability that is:
 ♦ Being paid by installment agreement;
 ♦ Being worked in ACS; or
 ♦ Has been identified as currently not collectible (CNC).

10 Offsets are transfers of credit balances from one taxpayer module to another module on which there is an outstanding liability. For example, if a taxpayer files a refund return and has an unpaid liability for a prior year, the refund will be applied to the prior year liability rather than being refunded to the taxpayer.

11 The collection industry estimates that the probability of collecting unpaid accounts falls to 70 percent after three months, 52 percent after six months, and 23 percent after a year. See, e.g., Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2011-30-112, *Reducing the Processing Time Between Balance Due Notices Could Increase Collections* 8 (Sept. 26, 2011) (citing collectability statistics based on a survey conducted by the Commercial Collection Agency Association).

12 IRS, Filing and Payment Compliance Advisory Council (Oct. 19, 2009).

Findings

We compared PCA and IRS collections during four consecutive six-month intervals following case receipt. As the table below shows, the IRS collected about 62 percent more than the PCAs during these two years (\$139.4 million compared to \$86.2 million collected by the PCAs).¹³

TABLE 1, Total Payments Collected by the PCAs and IRS during the Full Study Period

	PCA Dollars Collected	Percent of Available Dollars	IRS Dollars Collected	Percent of Available Dollars
First Period	\$63,646,131	4.0%	\$45,051,770	3.0%
Second Period	\$14,653,173	1.4%	\$36,117,475	2.5%
Third Period	\$6,013,101	1.0%	\$30,498,716	2.1%
Fourth Period	\$1,863,314	0.6%	\$27,741,639	2.2%
Total	\$86,175,719	5.4%	\$139,409,600	9.2%

The amount the PCAs collected falls precipitously after the first period, especially in comparison to IRS collections. This is consistent with our observation that the PCAs worked all the cases before the IRS, and had an opportunity to close the “easy” cases, *i.e.*, liabilities owed by taxpayers who responded quickly to telephone contact. The above analysis suggests that the PCAs had little success after working the easy cases. In contrast, the IRS continued to collect significant amounts throughout the two-year study period.

It is also noteworthy that the IRS collects significant amounts of money from refund offsets. We calculated that during the two-year periods under study, the IRS collected \$237,694,764 through offsets. This is more than the combined total the PCAs and IRS collected through their collection activities.

Conclusion

TAS study results show that the IRS was significantly more effective than the PCAs in collecting tax liabilities in all but the first six months after case receipt, collecting about twice as much as a percent of the dollars available for collection. These results likely understate the difference in IRS and PCA effectiveness, since our analysis placed the IRS at a significant disadvantage:

- All of the cases were older when the IRS got them, and some were more than two years older;¹⁴ and
- The PCAs worked the cases first and collected the easy dollars, while the IRS only got cases the PCAs had already handled.

¹³ It is noteworthy that the IRS collects significant amounts of money from offsets. We calculated that during the two-year periods under study, the IRS collected \$237,694,764 through offsets. This is more than the combined total the PCAs and IRS collected through their collection activities.

¹⁴ TAS analysis of IRS data showed that the IRS recalled nearly 300,000 tax modules, of which almost 11,000 were in PCA custody for more than two years.

INTRODUCTION

In 2004, Congress passed the American Jobs Creation Act, which granted the IRS the authority to contract out collection of past due taxes to private collection agencies.¹⁵ The original intent of the program was to address the buildup of potentially collectible inventory that was not being worked by the IRS.¹⁶ The PCAs would help collect the aging receivables in exchange for commissions based on the amount collected.¹⁷

The Private Debt Collection Program has been the subject of several studies, including the IRS Cost Effectiveness Study (CES) and another study by the Government Accountability Office (GAO).¹⁸ TAS decided to take an independent look at the IRS data. This report examines the results the IRS obtained while working the inventory recalled from the PCAs and analyzes whether the IRS or the PCAs performed better when working the PCA inventory.

BACKGROUND

In September 2006, the IRS began assigning taxpayer accounts to PCAs.¹⁹ The PCAs' authority to work these cases was limited. For instance, the agencies could not determine or negotiate the amount of a taxpayer's liabilities, and the only cases PCAs could resolve were those in which the amount was not in dispute. Moreover, the PCAs did not have the seizure, lien, or levy authority delegated to IRS collection employees, nor did they have the authority to enter into offers in compromise or lengthy installment agreements.²⁰ The IRS assigned PCAs the following types of cases:

1. Cases that involved an individual taxpayer with a balance due for one tax period and \$25,000 or less due from September to December 2006;
2. Cases that involved an individual taxpayer with a balance due for one or more tax periods and \$100,000 or less due from January 2007 to February 2009.

These cases were Potential New Inventory cases, which fall into three categories:

1. Queue – Accounts awaiting assignment to the collection field function but suspended (*i.e.*, not being worked);

15 The American Jobs Creation Act of 2004, Pub. L. No. 108-357, § 881(e), 118 Stat. 1418 (2004), providing in pertinent part: (e) BIENNIAL REPORT. — The Secretary of the Treasury shall biennially submit (beginning in 2005) to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives a report with respect to qualified tax collection contracts under section 6306 of the Internal Revenue Code of 1986 (as added by this section) which includes — (1) a complete cost benefit analysis,

16 In 2003, the IRS had a backlog of receivables of approximately \$120 billion which was growing at approximately four percent per year. See General Accounting Office, GAO-04-492, *Tax Debt Collection, IRS Is Addressing Critical Factors for Contracting Out but Will Need to Study the Best Use of Resources 1* (May 2004).

17 GAO, GAO-04-492, *Tax Debt Collection, IRS Is Addressing Critical Factors for Contracting Out but Will Need to Study the Best Use of Resources 1* (May 2004).

18 GAO, GAO 10-963, *Tax Debt Collection, IRS Could Improve Future Studies by Establishing Appropriate Guidance* (Sept. 2010).

19 Three private collectors were used in the first phase of the initiative: CBE Group Inc. of Waterloo, Iowa; Linebarger, Goggan Blair & Sampson of Austin, Texas; and Pioneer Credit Recovery, Inc. of Arcade, N.Y. Internal Revenue Service News Release, IR-2006-42 (March 9, 2006). Linebarger was let out of its contract in March of 2007.

20 For more background on the case selection and the limitations on PCA activity see National Taxpayer Advocate 2008 Annual Report to Congress 328-336 (Status Update: *The IRS's Private Debt Collection Initiative is Failing in Most Respects*); National Taxpayer Advocate 2007 Annual Report to Congress 411-43 (Status Update: *Private Debt Collection*); National Taxpayer Advocate 2006 Annual Report to Congress 34-61 (Most Serious Problem: *True Costs and Benefits of Private Debt Collection*); National Taxpayer Advocate 2005 Annual Report to Congress 76-93 (Most Serious Problem: *Training of Private Debt Collection Employees*); See also IRS *Private Debt Collection Program: Hearing Before the U.S. House of Representatives, Committee on Ways and Means* (May 23, 2007) (statement of Nina E. Olson, National Taxpayer Advocate).

2. Accounts that are not being worked due to IRS resource limitations; and
3. Unable to contact or unable to locate (UTC/UTL) – Accounts where the IRS is not able to contact or locate the taxpayer after researching available resources.

Initially, the IRS contracted with three PCAs to help collect tax debts. In March 2007, the IRS decided to extend the contract option for only two PCAs and recalled all accounts from the other contractor.²¹ The PDC Program continued for nearly three years before the IRS ended it. In total, the IRS placed \$1.8 billion (357,449 tax modules) of outstanding tax liabilities with the PCAs for collection.²² In March of 2009, the IRS announced it would not renew the PCAs' contracts,²³ and began planning to recall the cases.²⁴ At the end of the program, the PCAs returned nearly 300,000 modules to the IRS. The IRS reviewed each case, determined its current status, and placed it back into the status it deemed appropriate.²⁵

This report examines the results the IRS obtained while working the inventory recalled from the PCAs and analyzes whether the IRS or the PCAs performed better when working the PCA inventory. A limitation of the analysis is that it places the IRS at a significant disadvantage to the PCAs, since the liabilities were older when they returned to the IRS²⁶ than when they were placed with the PCAs, and the PCAs had already had an opportunity to close the easy cases. Thus, outcomes showing superior IRS performance are conservative.

METHODOLOGY

As discussed above in the Background section, TAS performed a comparison of the IRS and PCA results while working the PCA Inventory. For this analysis, the IRS provided a list of all taxpayers whose accounts were assigned to a PCA, including the dates the cases were assigned to the agency and returned to the IRS. TAS used this list to determine when cases were under PCA control and when they were under IRS control.

TAS used the IRS Accounts Receivable Dollar Inventory (ARDI) to pull data on the balance owed at the time of case assignment, at six-month intervals after assignment, and at resolution for both the PCAs and the IRS.²⁷ We used the IRS collection status code history file to determine when cases were resolved and

21. IRS Filing and Payment Compliance Advisory Council Briefing, March 7, 2007. Initially, IRS contracted with CBE Group, Pioneer Collection and Linebarger (LGBS). In March 2007, the contract with Linebarger was not extended.

22. IRS, Filing and Payment Compliance Advisory Council (Oct. 19, 2009).

23. IR-2009-19, IRS Employees More Flexible, More Cost Efficient (Mar. 5, 2009).

24. IRS, Filing and Payment Compliance Advisory Council (July 20, 2009).

25. Status codes show the status of a taxpayer account at a particular point in time, such as whether the taxpayer has an outstanding liability that is:

- ◆ Being paid by installment agreement;
- ◆ Being worked in the Automated Collection System (ACS); or
- ◆ Has been identified as currently not collectible (CNC).

26. The collection industry estimates that the probability of collecting unpaid accounts falls to 70 percent after three months, 52 percent after six months, and 23 percent after a year. See, e.g., TIGTA, Ref. No. 2011-30-112, *Reducing the Processing Time between Balance Due Notices Could Increase Collections* 8 (Sept. 26, 2011) (citing collectability statistics based on a survey conducted by the Commercial Collection Agency Association).

27. For unresolved PCA cases, TAS used the ARDI to determine the balance due on the date the case was recalled by the IRS. We continued to give the PCAs credit for payments received up to two weeks after recall, since the payments likely resulted from PCA collection efforts.

what their status was when they were returned to the IRS.²⁸ Finally, we used the IRS Master File transaction history to determine the type and timing of payments received on the account, both while under PCA and IRS control. We broke out offset payments separately, rather than crediting them to the PCAs or IRS, since they happen automatically, rather than as a result of PCA or IRS collection efforts.²⁹

Limitations

Because the IRS worked the PCA inventory after recall, our analysis comparing IRS and PCA results while working the PCA inventory places the IRS at a significant disadvantage to the PCAs. The liabilities were older on return to the IRS³⁰ and the PCAs had already had an opportunity to close the easy cases. Thus, outcomes showing superior IRS performance are conservative.

On the other hand, PCAs did not have the authority to conduct certain actions on the cases that IRS collection employees are generally able to undertake. Specifically, because these actions require the exercise of judgment and discretion and therefore are inherently governmental, PCA employees were unable to issue liens and levies or seize property; they were also not able to enter in offers in compromise or lengthy installment agreements.³¹

TAS used data supplied by the IRS to identify the tax modules worked by the PCAs and subsequently recalled by the IRS. The analysis does not include the tax modules for several hundred invalid taxpayer identification numbers (TINs) we found in the IRS files. In total, TAS identified 349,586 valid tax modules with tax liabilities totaling about \$1.6 billion; these are the modules included in the analysis. This contrasts with the \$1.8 billion (357,449 tax modules) of outstanding tax liabilities the IRS reported it placed with the PCAs for collection.³²

FINDINGS

TAS calculated the dollars collected by the PCAs while working the population of PNI cases assigned to them during the PDC Program tenure. We also calculated the dollars the IRS collected while working the subset of these cases that it recalled. We only count payments made while the module was in PCA or IRS control. This period begins on the date that the PCA or IRS received the module³³ and ends at case

28 Status codes show the status of a taxpayer account at a particular point in time, such as whether the taxpayer has an outstanding liability that is:

- ◆ Being paid by installment agreement;
- ◆ Being worked in ACS; or
- ◆ Has been identified as currently not collectible (CNC).

29 Offsets are transfers of credit balances from one taxpayer module to another module on which there is an outstanding liability. For example, if a taxpayer files a refund return and has an unpaid liability for a prior year, the refund will be applied to the prior year liability rather than being returned to the taxpayer.

30 The collection industry estimates that the probability of collecting unpaid accounts falls to 70 percent after three months, 52 percent after six months, and 23 percent after a year. See, e.g., TIGTA, Ref. No. 2011-30-112, *Reducing the Processing Time between Balance Due Notices Could Increase Collections* 8 (Sept. 26, 2011) (citing collectability statistics based on a survey conducted by the Commercial Collection Agency Association).

31 For an in-depth discussion of the concept of inherently governmental activities and how that concept applies to the Private Debt Collection initiative, see *IRS Private Debt Collection Program: Hearing Before the U.S. House of Representatives, Committee on Ways and Means* (May 23, 2007) (statement of Nina E. Olson, National Taxpayer Advocate).

32 IRS, Filing and Payment Compliance Advisory Council (Oct. 19, 2009).

33 The IRS computer system creates a separate module in its master file for each return a taxpayer files. Activities affecting a particular tax return are recorded in the module corresponding to that return.

resolution as described below. We break out offset payments separately, rather than crediting them to the PCAs or IRS, since they happen automatically, not because of PCA or IRS collection efforts.³⁴

To adjust for the different lengths of time that the PCAs and IRS had to work the cases, we tracked dollars collected in six-month intervals, *i.e.*, dollars collected in the first six months after receipt, dollars collected in the second six months after receipt, etc. In total, we analyzed four such periods for both the PCAs and the IRS.

For both the PCAs and the IRS, we identified four kinds of case resolution and included dollars collected for each type of resolution in our calculations:

- Full pay – includes all payments in the reported periods until all the taxpayer's modules have been paid in full.
- Installment agreement (IA) – includes all payments in the reported time periods until full payment or default.³⁵
- Currently not collectible (CNC)³⁶ – includes all payments in the reported time periods until full payment or recall of all of the taxpayer's modules.
- Unresolved – For the PCAs, includes all payments received in the reported periods or until recall, if recall occurred before two years (*i.e.*, four six-month intervals) elapsed. For the IRS, this includes all payments received in the reported periods.

In the tables that follow, we compare PCA and IRS collection results during the periods under study, *i.e.*, two years following receipt of the case. Since the PCAs had fewer dollars available for collection in several periods, to ensure a fair comparison, we compared the percent the PCAs and IRS collected of the total dollars available for collection. Table 2 below shows the total dollars available for collection at the beginning of each of the four six-month intervals after the PCAs or IRS received the case.

TABLE 2, Dollars Available for Collection during the Four Intervals Following Case Receipt

	PCAs	IRS
Receipt Date	\$1,581,918,726	\$1,514,951,108
+ 6 months	\$1,049,362,723	\$1,468,992,774
+ 1 year	\$574,351,356	\$1,422,894,453
+ 1.5 years	\$287,589,003	\$1,380,819,526

34 Offsets are transfers of credit balances from one taxpayer module to another module on which there is an outstanding liability. For example, if a taxpayer files a refund return and has an unpaid liability for a prior year, the refund will be applied to the prior year liability rather than being returned to the taxpayer.

35 It should be noted that under this methodology, PCAs receive credit for all payments made on IAs in the reported periods. This includes payments that occurred after the recall date if the taxpayer made the payment within two years after the PCA received the case.

36 The IRS reports accounts as currently not collectible for a variety of reasons, including (among others):

- ◆ Inability to locate the taxpayer or assets;
- ◆ Collection of the liability would create a hardship for taxpayers by leaving them unable to meet necessary living expenses; and
- ◆ Death of an individual with no collection potential from the decedent/decedent estate.

See Internal Revenue Manual (IRM) 5.16.1 for a complete discussion of the reasons the IRS places an account in CNC status.

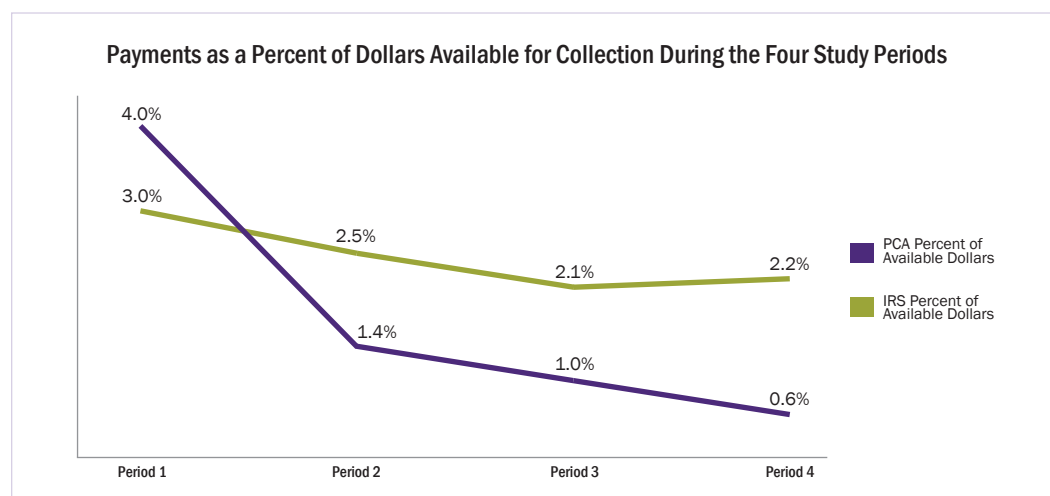
Table 3 below shows the dollars the PCAs and IRS collected during the four six-month intervals, and the percentage these amounts comprised of the dollars available for collection.

TABLE 3, Total Payments Collected by the PCAs and IRS during the Full Study Period

	PCA Dollars Collected	Percent of Available Dollars	IRS Dollars Collected	Percent of Available Dollars
First Period	\$63,646,131	4.0%	\$45,051,770	3.0%
Second Period	\$14,653,173	1.4%	\$36,117,475	2.5%
Third Period	\$6,013,101	1.0%	\$30,498,716	2.1%
Fourth Period	\$1,863,314	0.6%	\$27,741,639	2.2%
Total	\$86,175,719	5.4%	\$139,409,600	9.2%

As illustrated above, the IRS collected about 62 percent more than the PCAs during the two years following case receipt (\$139.4 million compared to \$86.2 million). It is noteworthy that the PCAs collected more during the first six-month period than the IRS, but significantly less in the remaining three periods. The amount the PCAs collected falls precipitously during these periods, especially in comparison to IRS collections, as shown in Figure 4 below.

FIGURE 4, Payments as a Percent of Dollars Available for Collection During the Four Study Periods



The abrupt decline in PCA collections after the first six-month period is consistent with our earlier observation that the PCAs worked all the cases before the IRS, and had an opportunity to close the “easy” ones, *i.e.*, liabilities owed by taxpayers who responded quickly to telephone contact. The above analysis suggests the PCAs had little success after working the easy cases. In contrast, the IRS continued to collect significant amounts throughout the study period.

The IRS also collected significant amounts from offsets, which are not included in the table above because they occur without any direct intervention by IRS or PCA personnel. During the two-year periods

under study, we calculated that the IRS collected \$237,694,764 through offsets, which is more than the combined total the PCAs and IRS brought in through their collection activities.

CONCLUSION

TAS study results show that the IRS was significantly more effective than the PCAs in collecting tax liabilities in all but the first six months after case receipt, collecting about twice as much as a percent of the dollars available for collection. These results likely understate the difference in IRS and PCA effectiveness, since our analysis placed the IRS at a significant disadvantage:

- All of the cases were older when the IRS got them, and some were more than two years older;³⁷ and
- The PCAs worked the cases first and collected the easy dollars, while the IRS only got cases the PCAs had already worked.

³⁷ TAS analysis of IRS data showed that the IRS recalled nearly 300,000 tax modules, of which almost 11,000 were in PCA custody for more than two years.

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