

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

April 28, 2014

Dear Senator:

The undersigned consumer and civil rights groups are writing to express our strong opposition to language included in the "Expiring Provisions Improvement Reform and Efficiency (EXPIRE) Act of 2014," that would require the Secretary of Treasury to contract with private debt collection agencies to collect taxes. The Treasury Secretary currently has the statutory authority to contract with private collectors, but has chosen not to enter into such contracts.

We believe 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 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.

The EXPIRE Act'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 just in 2013. The highest number of consumer complaints filed with the Consumer Financial Protection Bureau (CFPB) involve debt collection practices, over 30,000 in just 6 months (including 167 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 GAO report issued just last month documented, private collectors gave inaccurate or misleading information about borrowers' rights and options. We fear the same will happen with private debt collectors and 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 use of private collectors also disproportionately burdens low-income taxpayers. A study by the National Taxpayer Advocate found that the average income of taxpayers assigned to private collectors during the mid-2000s was significantly less than the income levels of taxpayers whose cases were worked by IRS employees. Moreover, the study found almost a quarter of the taxpayers referred to the private collectors probably receive the Earned Income Tax Credit (EITC), a much higher rate than that of the total taxpayer population.

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.

We strongly urge you to oppose language in the "EXPIRE Act of 2014" that would require the use of private collection companies to collect taxes on a commission basis.

Americans for Financial Reform

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

Appleseed

Center for Digital Democracy

Center for Economic Justice

Consumer Action

Consumer Federation of America

Consumers Union

NAACP

National Community Reinvestment Coalition

National Consumers League

National Council of La Raza (NCLR)

National Fair Housing Alliance

Nebraska Appleseed

Woodstock Institute