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September 6, 2006

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The Honorable Henry M. Paulson
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Mark W. Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Secretary Paulson and Commissioner Everson:

I urge you to suspend indefinitely the Internal Revenue Service's plan to outsource part of its tax collection responsibilities to private collection companies. It would be a serious mistake for the Internal Revenue Service (IRS) to move ahead with its controversial tax debt collection privatization plan.

As you know, the House of Representatives has already voted to kill new funding for this IRS initiative. And I will be introducing similar legislation this week in the U.S. Senate and will push for a vote on my proposal by the full Senate at the first available opportunity.

When the IRS attempted a similar plan in 1996, it failed miserably. Mistakes were made at every turn. Taxpayers were harassed by private debt collectors. In many instances, private debt collectors violated federal debt collection laws and confidential taxpayer information was not properly secured.

Serious concerns have been raised by tax experts, including the National Taxpayer Advocate, that the new IRS initiative will suffer from the same kinds of maladies. It is my understanding that the IRS intends to share more than 2.5 million taxpayer accounts with ten private collection companies when its new plan is fully implemented. There is troubling evidence which suggests that the IRS plan may not have adequate safeguards in place to protect confidential taxpayer information. Just a little over two years ago, a Treasury Inspector General for Tax Administration (TIGTA) investigation found that a contractor's employees committed security violations placing IRS equipment and taxpayer data at risk. In some case, TIGTA officials found that contractors "blatantly circumvented IRS policies and procedures even when security personnel had identified inappropriate practices."

It is also troubling that the IRS has agreed to pay very large commissions of 21 to 24 percent of the amount of the tax debt collected by three private collection firms at the outset of its initiative. Some tax experts understand what others are choosing to ignore: paying a commission based on the firms' success increases the potential for overzealous collection practices and the misuse of sensitive taxpayer information. Private debt collection agencies are driven by profit motives, not public service.

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In addition, the IRS admits that if it hired more employees for this purpose, not private collectors, far more revenues would be deposited in the U.S. Treasury fund. It is astounding that the IRS appears ready to pay nearly a quarter of every dollar collected by private collection firms, when internal IRS reports suggest that it would cost the federal government just 3 pennies on a dollar to have trained IRS employees collect tax debts that are owed. At a time of exploding deficits and federal debt, the IRS plan to use of private debt collectors would be an inexcusable waste of taxpayer money.

Everybody needs to pay the taxes they owe. If they do not, however, professional IRS employees, not private collectors in search of profits, should be the ones to ensure that outstanding tax debts are paid. If the IRS now says it needs more resources for tax enforcement and collection activities, then Congress should consider providing them.

I urge the IRS to immediately reverse course and indefinitely suspend the implementation of its private debt collection plan. I fully agree with the independent Taxpayer Advocacy Panel's recent recommendation that the IRS "should abandon all plans to outsource any taxpayer debts and restrict collection activities to properly trained and proficient IRS personnel."

I hope the Service will act quickly on its own to stop its planned use of private debt collectors and save any further expenditures of taxpayer money for this purpose. If not, however, I will do everything in my power to put the brakes on this plan in the U.S. Senate.

Thank you in advance for your prompt attention to this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Byron L. Dorgan".

Byron L. Dorgan
U.S. Senator

BLD:ach