United States Government Accountability Office

Report to the Ranking Member, Committee on Ways and Means, House of Representatives

February 2024

PRIVATE DEBT COLLECTION PROGRAM

IRS Could Improve Results and Better Promote Equitable Outcomes for Taxpayers

Accessible Version

GAO-24-106140

GAO Highlights

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Highlights of GAO-24-106140, a Report to the Ranking Member, Committee on Ways and Means, House of Representatives

February 2024

PRIVATE DEBT COLLECTION PROGRAM

IRS Could Improve Results and Better Promote Equitable Outcomes for Taxpayers

Why GAO Did This Study

IRS attempts to collect tax debts to help reduce the tax gap and promote voluntary compliance. A 2015 law establishing the PDC program requires IRS to contract with private collection agencies for certain tax debts, including those IRS determined it lacked resources to pursue.

GAO was asked to review the PDC program. This report (1) identifies characteristics of taxpayers in the program, and (2) assesses the extent to which IRS is effectively managing the program and promoting equitable outcomes among taxpayers.

GAO used IRS data to identify characteristics of taxpayers assigned to the PDC program from calendar years 2017 through 2023. GAO reviewed documentation and interviewed IRS officials about IRS's PDC program management and efforts to promote equitable outcomes.

What GAO Recommends

GAO is making four new recommendations, including that IRS establish clear goals or targets for its Special Compliance Fund; establish standards to assess equity related to the PDC program, and address any issues; and provide taxpayers excluded from the PDC program tailored information about their cases. GAO also maintains that two open recommendations from 2019 are warranted and should be fully implemented to improve program results, as discussed in the report.

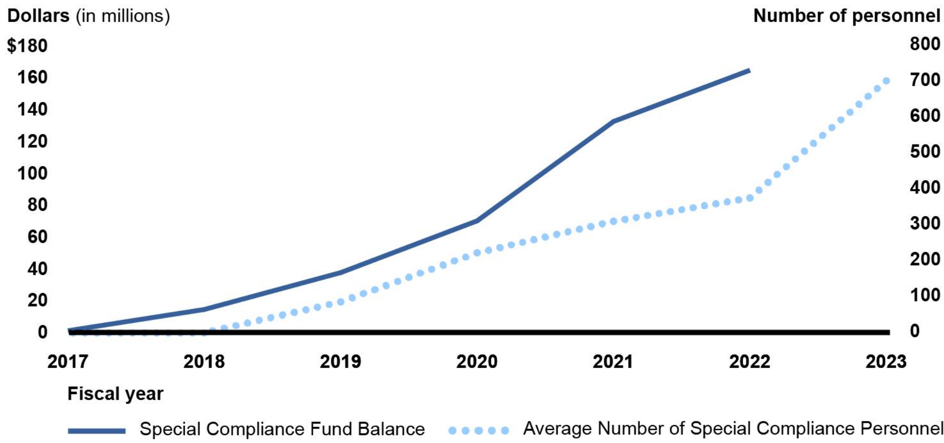
IRS agreed with all four of GAO's new recommendations.

What GAO Found

The Internal Revenue Service (IRS) assigns taxpayers with certain inactive tax debts to private collection agencies—rather than IRS's collection function—under its Private Debt Collection (PDC) program. The majority of individual and business taxpayers IRS assigned to the PDC program owed $5,000 or less and did not file income tax returns. Of individual taxpayers who did file, generally more than half filed as single, had no dependents, or reported an income of $50,000 or less.

IRS allocates a portion of the payments recovered under the PDC program to its Special Compliance Personnel Program Fund. It uses the fund to hire IRS personnel to work other, non-PDC collection cases. The fund balance grew to over $160 million in fiscal year 2022. IRS has not established clear goals for managing this fund, which could help it optimize the fund's performance.

IRS's Special Compliance Personnel Program Fund Balance Growth and Hires



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Accessible Data for IRS's Special Compliance Personnel Program Fund Balance Growth and Hires

Fiscal Year	Available Balance in SCPP Fund (carried forward to next year) in Dollars	Average Number of Special Compliance Personnel
2017	$1,248,400	0
2018	$14,599,400	0
2019	$37,753,600	86
2020	$70,242,400	223
2021	$132,651,000	311
2022	$164,844,000	376
2023	0	703

Source: GAO analysis of Internal Revenue Service data. I GAO-24-106140

Note: Fund data for 2023 were not publicly available as of January 2024.

Department of the Treasury and IRS have established policies that call for IRS to evaluate enforcement equity, but IRS has not yet established measurable standards related to the PDC program, such as for comparing rates that different demographic groups are assigned to the program. Doing so would better position

IRS to determine whether taxpayers with debt get equitable services, information, and opportunities to meet their tax obligations.

Certain taxpayers are legally excluded from the program, including more than 1 million taxpayers with limited financial means. Excluded taxpayers receive one mailed notice per year with mostly boilerplate language about unpaid taxes. Without tailored information, these taxpayers may not be aware of their cases' statuses, the consequences of not resolving their debts, and the best options to resolve their debts. In addition, IRS has not yet addressed two GAO recommendations from 2019, which if implemented, could improve PDC program efficiency and enhance revenue collection.

Contents

Abbreviations

CDW	Compliance Data Warehouse
IRS	Internal Revenue Service
PDC	Private Debt Collection
SSA	Social Security Administration
TIGTA	Treasury Inspector General for Tax Administration

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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February 6, 2024

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
House of Representatives

Dear Mr. Neal,

The Internal Revenue Service (IRS) attempts to collect unpaid tax debts to help reduce the tax gap—the difference between tax amounts that taxpayers should pay and what they actually pay voluntarily and on time—and promote compliance. IRS efforts are intended to give all taxpayers confidence that everyone is paying their fair share. IRS has historically lacked resources to pursue all debts.[1] A 2015 law establishing the Private Debt Collection (PDC) program requires IRS to contract with private collection agencies for certain tax debts, including those IRS determined it lacked resources to pursue.[2] The 2019 Taxpayer First Act requires IRS to exclude certain taxpayers with limited financial means from the PDC program.[3]

IRS used PDC programs two previous times between 1995 and 2010. However, IRS cancelled these earlier programs, in part because it determined that either costs exceeded revenues collected or IRS could perform the same work more cost effectively.

From the time IRS started the current program in fiscal year 2017 through the end of fiscal year 2021, it assigned over 4 million cases with a total dollar value of about $36.8 billion to the private collection agencies, according to the Treasury Inspector General for Tax Administration (TIGTA). TIGTA also reported that during that same time the private collection agencies collected about $1.1 billion in payments from taxpayer

[1]GAO, *Tax Debt Collection Contracts: IRS Analysis Could Help Improve Program Results and Better Protect Taxpayers*, GAO-19-193 (Washington, D.C.: Mar. 29, 2019).

[2]Fixing America's Surface Transportation Act, Pub. L. No. 114-94, div. C, tit. XXXII, subtit. A, § 32102, 129 Stat. 1312, 1733-36 (2015), *codified at* 26 U.S.C. § 6306(c).

[3]Pub. L. No. 116-25, tit. I, subtit. C, § 1205, 133 Stat. 981, 989-90 (2019), *codified at* 26 U.S.C. § 6306(d)(3)(E)-(F).

cases assigned to them, or about 2.96 percent of the total dollar value owed.[4]

We, TIGTA, and the National Taxpayer Advocate have all reviewed the PDC program over the years, identifying challenges and opportunities for IRS to improve program management and taxpayer treatment. You asked us to review how IRS is managing the program to address these issues. This report (1) identifies characteristics of taxpayers in the program and (2) assesses the extent to which IRS is effectively managing the program and promoting equitable outcomes among taxpayers.

For purposes of reporting on the PDC program, we focused on those taxpayers who were eligible for assignment to the program. These are generally those taxpayers who are routed to IRS's inactive inventory that we and IRS refer to as the shelf. We examined aspects of the program pertaining to those taxpayers who were assigned to the PDC program, as well as those taxpayers who were routed to IRS's shelf but excluded from the program based on legal requirements.

To address our first objective, we interviewed IRS officials and analyzed IRS and Social Security Administration data accessible in IRS databases from taxpayers in the PDC program. We used IRS data sources, including its Compliance Data Warehouse, to identify individual and business taxpayer cases that IRS assigned to the PDC program from 2017 through 2023, the most recently available data. We used the data on individual and business taxpayers in the PDC program to identify characteristics of taxpayers over time.

We used IRS's form 1040 filing and collection data to provide contextual comparisons between the ages of taxpayers in the PDC program and those of all taxpayers who filed tax returns during those years.

To address our second objective, we interviewed IRS officials and four stakeholder organizations that had experience with the program, including private debt collectors and tax preparers, and reviewed relevant financial and performance data.

As part of the PDC program, IRS is allowed to retain up to 25 percent of payments collected from taxpayers assigned to the PDC program for its

[4]Treasury Inspector General for Tax Administration, *Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance*, 2023-30-005 (Washington, D.C.: Dec. 27, 2022).

Special Compliance Personnel Program Fund.[5] To assess IRS's management of the Special Compliance Fund, we analyzed IRS data on the fund's revenue collected and costs and compared IRS management practices to leading practices for managing special funds that we identified in prior work.[6]

We reviewed recommendations from our 2019 report, recent TIGTA reports, and IRS data on how it routes collection cases and the amount of time it takes on average for IRS to assign cases to collection units or the PDC program to determine whether opportunities exist to improve program performance.

To better understand potential equity issues involving the program, we interviewed staff from three organizations that represented taxpayers with limited financial means who owe tax debt, including the Center for Taxpayer Rights, and two legal aid or low-income tax preparation organizations we identified based on our past work. We also interviewed the Taxpayer Advocate Service and TIGTA officials who have examined the PDC program to learn more about fairness and equity challenges and opportunities they had previously identified.

We reviewed strategic and planning documents, such as the Department of the Treasury's 2021 Equity Action Plan and IRS's 2023 Inflation Reduction Act Strategic Operating Plan, to identify Treasury and IRS equity goals. We assessed IRS's progress in achieving the Treasury and IRS equity goals.[7] We also assessed IRS outreach efforts to educate taxpayers about their debt resolution options against Strategic Operating Plan goals and the Taxpayer Bill of Rights.

To assess the data reliability for these objectives, we reviewed an IRS data dictionary and other documentation, obtained written responses and other feedback from IRS officials, and conducted electronic testing to

[5]IRS is entitled to retain up to 25 percent of commissionable payments to pay contractor commissions. IRS is also entitled to retain up to 25 percent of commissionable payments for its Special Compliance Fund that it uses to pay program administrative expenses and to hire Special Compliance Personnel to work on debt collection.

[6]GAO, *Federal User Fees: Fee Design Options and Implications for Managing Revenue Instability*, GAO-13-820 (Washington, D.C.: Sept. 30, 2013).

[7]GAO, *Evidence-Based Policymaking: Practices to Help Manage and Assess the Results of Federal Efforts*, GAO-23-105460 (Washington, D.C.: July 12, 2023).

verify the reliability of these data. We determined the data were sufficiently reliable for reporting on our objectives.

Additional information about our scope and methodology can be found in appendix I.

We conducted this performance audit from July 2022 to February 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

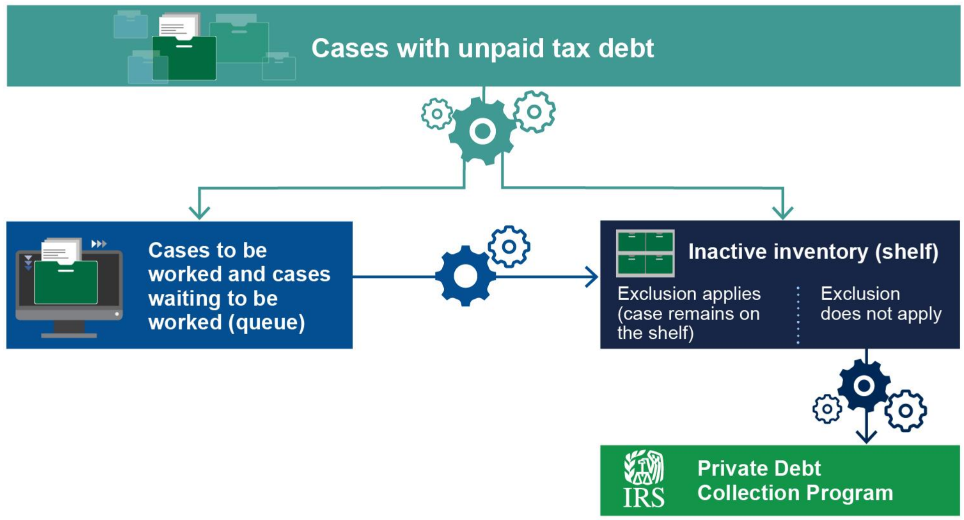
Background

Routing Cases for Collection

IRS's unit responsible for collecting outstanding tax debt and administering the PDC program is known as IRS Collection. As shown in figure 1, IRS's PDC program is one element of a larger collection process that IRS uses to collect tax debts, which includes accrued interest and penalties. IRS is legally required to assign certain cases to the PDC program. However, cases assigned to the PDC program are, in part, the product of decisions made by IRS Collection officials about which debts to actively pursue and how, as discussed later in this report.[8]

[8]IRS is legally required to designate cases for assignment to private contractors if: (1) IRS removed them from the active inventory due to a lack of resources or inability to locate the taxpayer, (2) more than 2 years passed since assessment and the case was not assigned to an IRS employee, or (3) more than one year has passed since assignment to an IRS employee without contact with the taxpayer or a third party in furtherance of the debt collection. 26 U.S.C. § 6306(c).

Figure 1: IRS's Private Debt Collection Program Is a Part of IRS's Collection Process



Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106140

Accessible Text for Figure 1: IRS's Private Debt Collection Program Is a Part of IRS's Collection Process

Process level	Process step
One	Cases with unpaid tax debt
Two	Cases to be worked and cases waiting to be worked (queue)
Two	Inactive inventory (shelf) • Exclusion applies (case remains on the shelf) • Exclusion does not apply
Three	Private debt collection program (IRS)

Source: GAO analysis of Internal Revenue Service information. GAO illustrations. I GAO-24-106140

Note: IRS is required by law to exclude taxpayers who fall into certain categories including deceased, under the age of 18, pending offer in compromise or installment agreement, and taxpayers who have limited financial means.

According to IRS officials, IRS uses models to predict which debts it will most likely be able to collect, based on an analysis of factors such as the unpaid debt amount and the taxpayer's ability to pay it. IRS uses a routing process to assign cases to the collection unit its policy rules and models predict is best suited to collect the debt.

For example, IRS may route a case to an active inventory unit, which attempts to have telephone contact with the taxpayer. Alternatively, IRS might route a case to IRS revenue officers in the field who attempt in-person contact with the taxpayer. IRS routes those cases to one of its collection units or to its queue, where the cases wait for possible assignment to a revenue officer.

Those debts that IRS's models and policy rules determine are not worth pursuing are routed to the shelf. IRS uses factors such as low debt amount and low recovery likelihood to make those determinations. IRS is required by statute to assign the cases in its shelf to the PDC program unless certain exclusions apply, such as taxpayers who are deceased or under the age of 18.[9]

The 2019 Taxpayer First Act expanded the exclusion categories to include taxpayers whose reported adjusted gross incomes do not exceed 200 percent of the poverty line and taxpayers whose incomes mostly come from Supplemental Security Income or Social Security Disability Insurance.[10]

For cases IRS is required to exclude from the PDC program, IRS has discretion to determine where to assign those cases and which collection methods, if any, to use.[11] According to IRS officials, they reassess their collection routing decisions once per year to determine whether the taxpayers' circumstances have changed sufficiently to support routing them to a different collection unit. IRS officials said some excluded cases are assigned to the shelf, whereas others are assigned to a collection unit or the queue.

PDC Program Management

IRS is responsible for administering the PDC program, including periodically selecting contractors and establishing policies and procedures for the contractors' collection efforts. IRS began delivering

[9]26 U.S.C. § 6306(c). IRS is required to exclude taxpayers who fall into certain categories including deceased, under the age of 18, pending offer in compromise or installment agreement, and taxpayers who have limited financial means. 26 U.S.C. § 6306(d).

[10]Pub. L. 116–25, tit. I, subtit. C, § 1205(a), 133 Stat. 981, 989-90 (2019). Under 26 U.S.C. § 6306(d)(3)(F), to determine whether to exclude taxpayers from the program based on income, IRS is required to use the taxpayer's adjusted gross income from the most recent available tax year for which information is available.

[11]26 U.S.C. § 6306(d) requires IRS to exclude certain case categories from the PDC program but does not prohibit IRS from assigning them to other collection units or specify which ones.

cases to four contractors in April 2017 as part of the first private debt collection contract. This contract ended in 2021. IRS then entered into a second contract later the same year with three contractors—two from the first contract and one new contractor.[12] IRS officials said they reduced the number of contractors from four to three because they projected there would be fewer cases to assign to the PDC program after the additional Taxpayer First Act exclusions.

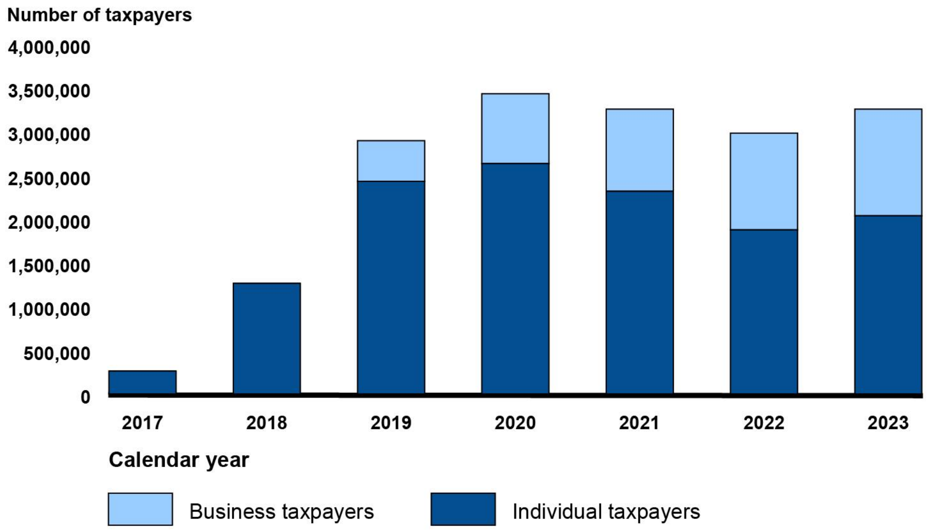
Since the program's inception in fiscal year 2017, IRS assigned cases to the PDC program using a phased approach. According to IRS officials, IRS's strategy for implementing the PDC program was to add more complex cases over time in three major phases. Business cases were included in the final phase in fiscal year 2019.

As shown in figure 2, this phased roll-out led to an increase in the number of taxpayers in the program between calendar years 2017 and 2020. The number of taxpayers in the program decreased in calendar year 2021. According to TIGTA, during the second contract negotiation process from December 2020 to September 2021, IRS did not assign any new accounts to the contractors for almost 9 months, which accounts for much of the decrease.[13]

[12]As part of the first private debt collection contract, IRS worked with four companies: The CBE Group, Inc.; Continental Service Group, Inc. (ConServe); Performant Recovery, Inc.; and Pioneer Credit Recovery, Inc. As part of the second contract, IRS worked with The CBE Group, Inc.; ConServe; and Coast Professional, Inc.

[13]Treasury Inspector General for Tax Administration, *Fiscal Year 2023 Biannual Independent Assessment*.

Figure 2: Number of Taxpayers Assigned to the Private Debt Collection Program, Calendar Years, 2017—2023



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Accessible Data for Figure 2: Number of Taxpayers Assigned to the Private Debt Collection Program, Calendar Years, 2017—2023

Calendar Year	Number of Individual taxpayers	Number of Business taxpayers
2017	262,188	0
2018	1,265,864	0
2019	2,431,578	465,256
2020	2,635,099	796,456
2021	2,317,408	940,149
2022	1,877,005	1,105,240
2023	2,037,295	1,219,674

Source: GAO analysis of Internal Revenue Service data. I GAO-24-106140

Note: IRS did not start assigning business taxpayers to the PDC program until fiscal year 2019.

IRS is required by statute to submit to Congress several reports. It is to submit annual reports on PDC activities and special fund balances.[14] TIGTA submits biannual reports to Congress evaluating the program's performance.[15] Additionally, we, the National Taxpayer Advocate, and

[14]26 U.S.C. § 6306(j).

[15]See 26 U.S.C. § 6306(j)(2), Treasury Inspector General for Tax Administration, *Fiscal Year 2023 Biannual Independent Assessment*.

TIGTA have reviewed certain aspects of the PDC program.[16] Recent TIGTA audits have examined payment options for taxpayers assigned to the PDC program and adjustments IRS made during the COVID-19 pandemic.[17] In 2022, TIGTA found that the contractors generally follow IRS's policies and procedures and applicable debt collection laws.[18]

In August 2022, Congress passed and the President signed the Inflation Reduction Act of 2022, which provided IRS with supplemental funding to remain available through the end of fiscal year 2031.[19] A portion of that amount appropriated was rescinded in June 2023, resulting in a total of more than $78 billion available to IRS.[20] IRS released a Strategic Operating Plan in April 2023 that outlines how IRS plans to use these funds. The plan articulates IRS's desire to transform its operations by, among other things, promoting fairness in enforcement activities, developing taxpayer-centric notices, and using its data to improve tax administration. The plan, once implemented, could affect IRS's collection process and the PDC program.

[16]See Taxpayer Advocate Service, 2018 Annual Report to Congress (Washington, D.C.: Feb. 12, 2019), Most Serious Problems number 18; Treasury Inspector General for Tax Administration, *The IRS Private Debt Collection Program Has Not Effectively Reported All Program Costs or Included Adequate Disclosures*, Report Number: 2022-30-022 (Washington, D.C.: Mar. 18, 2022); and *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited*, Report Number: 2018-30-052 (Washington, D.C:. Sept. 5, 2018).

[17]Treasury Inspector General for Tax Administration, *Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance*, 2021-30-010 (Washington, D.C.: Dec. 28, 2020); *Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance*, 2019-30-018 (Washington, D.C.: Dec. 31, 2018); and *Fiscal Year 2023 Biannual Independent Assessment*.

[18]In December 2022 TIGTA found that contractors generally followed procedures when speaking to taxpayers and misdirected payments were generally processed appropriately. *Fiscal Year 2023 Biannual Independent Assessment*.

[19]Pub. L. No. 117-169, § 10301, 136 Stat. 1818, 1831-32 (2022).

[20]The Fiscal Responsibility Act of 2023 rescinded over $1.389 billion of amounts appropriated for the IRS by Public Law 117-169. See Pub. L. No. 118-5, § 251, 137 Stat. 10, 30 (2023).

Available Data Provide Some Information about Taxpayers in the Program

Data Show Most Taxpayers in the PDC Program Were Male and between the Ages of 30 and 59

IRS does not collect race or ethnicity data for taxpayers. However, age and sex data are available for most individual taxpayers in the PDC program through Social Security Administration (SSA) data in IRS's databases.[21]

According to available data, approximately 70 percent of the total individual taxpayers in the PDC program from calendar years 2017 to 2023 were identified as male.[22] Around 7 percent of the taxpayers in the program filed jointly. According to IRS officials, the data show only the sex of the primary filer on a married filing jointly return. IRS's data showed that most joint filers were identified as male. However, since the number of joint returns was around 7 percent, joint filers alone cannot fully explain the preponderance of male taxpayers assigned to the PDC program. IRS officials said they had not researched why the PDC population skews male. However, the proportion of male taxpayers is nearly identical to taxpayers in IRS's overall debt collection process.

As compared to all taxpayers in collection and all tax filers, taxpayers in the PDC program were generally more concentrated in ages 30 to 59 (see table 1). Conversely, there were lower percentages of PDC program taxpayers in the youngest and oldest age ranges. Taxpayers under 18 are legally excluded from the program.

Table 1: Ages for Total Taxpayers in IRS's Private Debt Collection Program Compared to Those in IRS Collection and All Tax Filers, Calendar Years 2017—2022

Age	PDC program	IRS Collection	All tax filers
<19	0%	1%	4%
20 - 24	1	2	10

[21]IRS collects sex and date of birth data from the SSA using taxpayer Social Security numbers. SSA data are not dependent on taxpayers filing returns, therefore they are available regardless of whether a taxpayer filed a tax return each year.

[22]As stated above, the IRS data are based on SSA records. The SSA currently requires individuals to be identified as either male or female.

Age	PDC program	IRS Collection	All tax filers
25 - 29	5	6	11
30 - 39	22	21	19
40 - 49	28	26	16
50 - 59	28	25	16
60 - 64	9	9	7
65 - 69	4	5	6
70 +	3	6	12

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Note: All numbers are rounded to the nearest whole percentage point.

IRS Did Not Have Consistent Income Information for over Half of PDC Program Taxpayers

In most years, over half of the individual taxpayers in the PDC program did not file an income tax return in a given calendar year from the beginning of the program to 2022, the most recently available return data.[23] Taxpayers who did not file may not have been required by IRS to file a return. If a taxpayer has not filed a return, IRS uses the most recently available income data to determine eligibility for the PDC program.

The percentage of business taxpayers that did not file an income tax return was higher, with the range being between 90 percent and 92 percent.[24] According to IRS's data, most business taxpayers did not have an income tax filing requirement. Of those that IRS identified as having a filing requirement, around 58 percent of partnerships and 36 percent of corporations filed returns.

The low percentage of income tax filings results in a limited picture of certain individual taxpayer characteristics such as current income, filing status, and number of dependents, which can vary from year to year.[25] Of

[23]In only one year did the percentage of individual taxpayers who did not file fall below 50 percent (2019, when it was 44 percent). In other years the percentage of individual taxpayers who did not file ranged from 52 percent to 66 percent.

[24]Business taxpayers may have other return filings—including form 941 to show withholding on employees' salaries—that we did not analyze. Sole proprietor businesses are included in individual taxpayer amounts in this report.

[25]Because of the lower income tax filing rate of businesses, we are not reporting the characteristics of that population.

those individual taxpayers who filed current year returns in calendar years 2017 through 2022, we found that generally over half of the taxpayers reported having at least one of the following characteristics:

- single filer;
- income of $50,000 or less; or
- no dependents.[26]

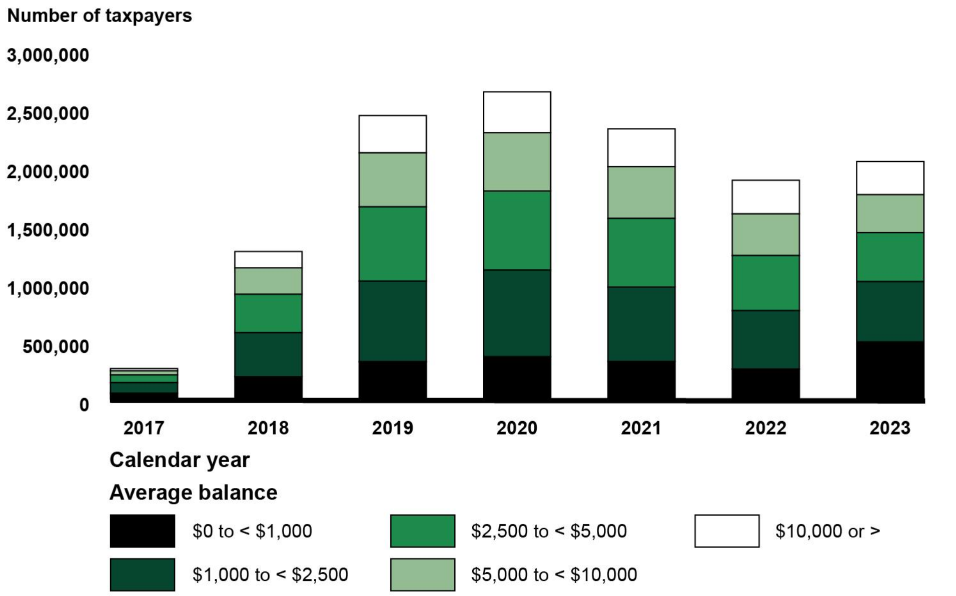
Most Taxpayers in the PDC Program Owed $5,000 or Less

According to our analysis of IRS's data, each calendar year from 2017 through 2023, most individual taxpayers in the PDC program owed an average debt of $5,000 or less (see fig. 3).[27] The percentage of taxpayers who owed this amount was consistent throughout the years and ranged between 66 percent and 79 percent.

[26]In only one year did the percentage of taxpayers with reported income of $50,000 or less fall below 50 percent (2022, when it was 43 percent); other years that percentage ranged from 59 percent to 73 percent. The percentage of single filers ranged from 60 percent to 73 percent. The percentage of filers with no dependents ranged from 59 percent to 69 percent. However, because of the low rate of individual tax return filings, the information on income, filing status, and number of dependents for most taxpayers in the PDC program is generally unknown.

[27]Income is the amount reported on the filed tax return, so for joint filers it includes both taxpayers combined. In figures 3 and 4, we calculated the average of each taxpayer's debt throughout each year. IRS calculates balances due and updates them based on interest, penalties, and payments. Over the course of a year, a debt may increase with interest and penalties or decrease if a taxpayer makes payments.

Figure 3: Most Individual Taxpayers in IRS's Private Debt Collection Program in Calendar Years 2017—2023 Had an Average Debt of $5,000 or Less



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

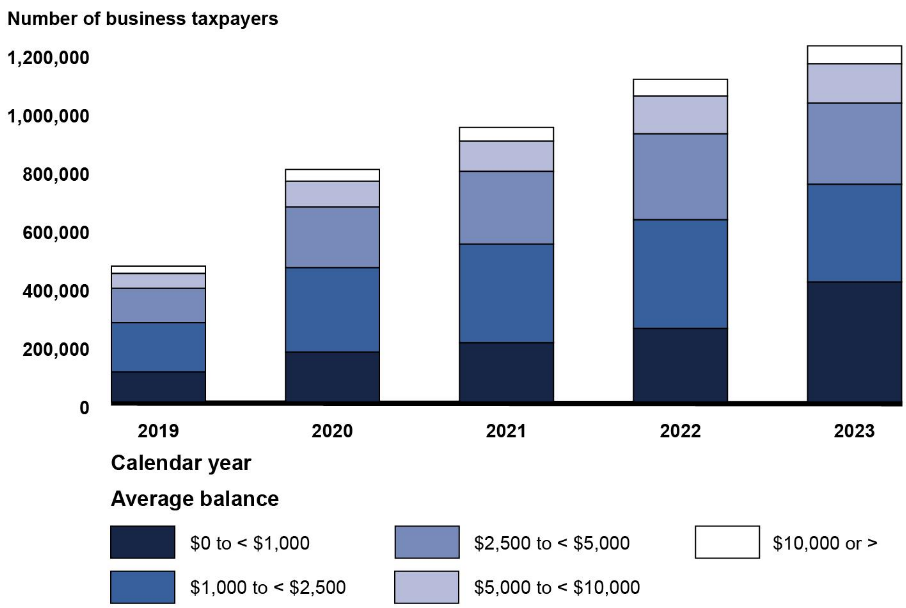
Accessible Data for Figure 3: Most Individual Taxpayers in IRS's Private Debt Collection Program in Calendar Years 2017—2023 Had an Average Debt of $5,000 or Less

Calendar Year	Number of taxpayers with average balance $0 to < $1000	Number of taxpayers with average balance $1,001 to < $2,500	Number of taxpayers with average balance $2,501 to < $5,000	Number of taxpayers with average balance $5,001 to < $10,000	Number of taxpayers with average balance $10,000 or >
2017	50,666	90,565	66,404	36,389	18,164
2018	192,011	378,116	329,878	225,832	140,027
2019	322,175	690,105	637,048	463,247	319,003
2020	363,671	742,814	679,293	498,818	350,503
2021	323,387	637,826	588,738	443,873	323,584
2022	258,110	501,955	471,408	357,824	287,708
2023	489,979	517,965	419,714	325,917	283,720

Source: GAO analysis of Internal Revenue Service data. I GAO-24-106140

Similarly, as shown in figure 4, most business taxpayers in the PDC program also owed $5,000 or less in each calendar year from 2019 through 2023. More specifically, around 84 percent of business taxpayers owed that debt amount in each of those years.

Figure 4: Most Business Taxpayers in IRS's Private Debt Collection Program in Calendar Years 2019—2023 Had an Average Debt of $5,000 or Less



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Accessible Data for Figure 4: Most Business Taxpayers in IRS's Private Debt Collection Program in Calendar Years 2019—2023 Had an Average Debt of $5,000 or Less

Calendar Year	Number of taxpayers with average balance $0 to < $1000	Number of taxpayers with average balance $1,001 to < $2,500	Number of taxpayers with average balance $2,501 to < $5,000	Number of taxpayers with average balance $5,001 to < $10,000	Number of taxpayers with average balance $10,000 or >
2019	101,986	169,232	117,624	50,927	25,487
2020	170,351	289,530	207,813	88,181	40,581
2021	202,519	338,020	248,987	103,827	46,796
2022	251,452	372,660	294,066	129,577	57,485
2023	410,883	334,466	278,338	134,435	61,552

Source: GAO analysis of Internal Revenue Service data. I GAO-24-106140

IRS Has Taken Steps to Improve PDC Program Management but Does Not Have Standards to Promote Equitable Outcomes

IRS's Special Compliance Fund Balance Is Growing

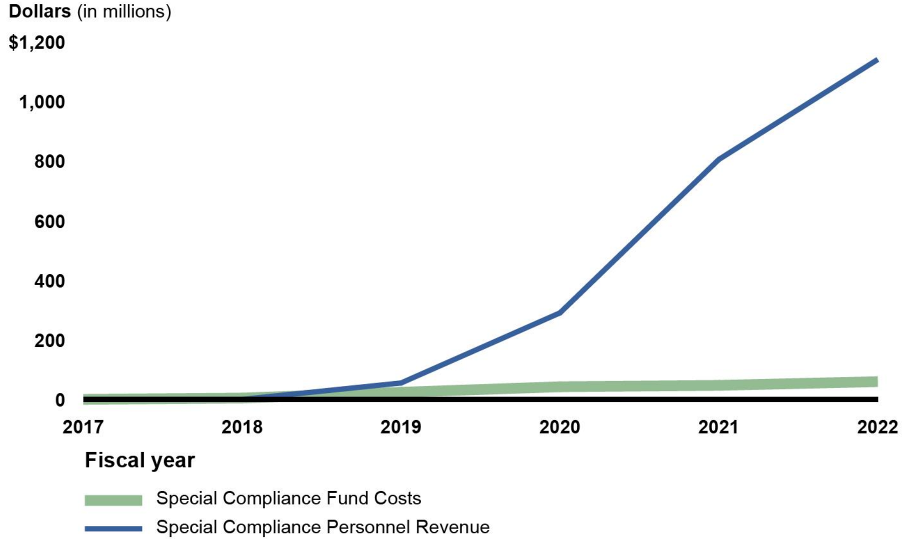
As part of the PDC program, IRS is allowed to retain up to 25 percent of payments collected from taxpayers assigned to the PDC program for its Special Compliance Personnel Program Fund (Special Compliance Fund).[28] The Special Compliance Fund's balance may only be used to hire collection staff known as Special Compliance Personnel and to pay PDC program administrative expenses.[29] IRS Collection has used these staff to work cases routed to the Automated Collection System, one of its collection units that sends taxpayers automated notices and responds to taxpayer contacts. Revenue collected by the Special Compliance Personnel goes to the Treasury General Fund.

Our analysis of IRS data shows that Special Compliance Personnel revenue collected has exceeded special fund costs each year since fiscal year 2019 (see fig. 5). For example, in fiscal year 2022, Special Compliance Personnel collected about $1.14 billion in payments compared to about $59 million in expenses.

[28]IRS is entitled to retain up to 25 percent of commissionable payments to pay contractor commissions. IRS is also entitled to retain up to 25 percent of commissionable payments for its Special Compliance Fund that it uses to pay program administrative expenses and to hire Special Compliance Personnel to work on debt collection.

[29]26 U.S.C. § 6307.

Figure 5: IRS's Special Compliance Personnel Revenue Collected Has Increased Substantially since Fiscal Year 2019



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Accessible Data for Figure 5: IRS's Special Compliance Personnel Revenue Collected Has Increased Substantially since Fiscal Year 2019

Fiscal Year	Special Compliance Personnel Revenue (Dollars in millions)	Special Compliance Personnel Retained Earnings (Dollars in millions)
2017	0	0
2018	0	$434
2019	$5,497	$2,380
2020	$29,012	$4,226
2021	$80,465	$4,697
2022	$113,999	$5,937

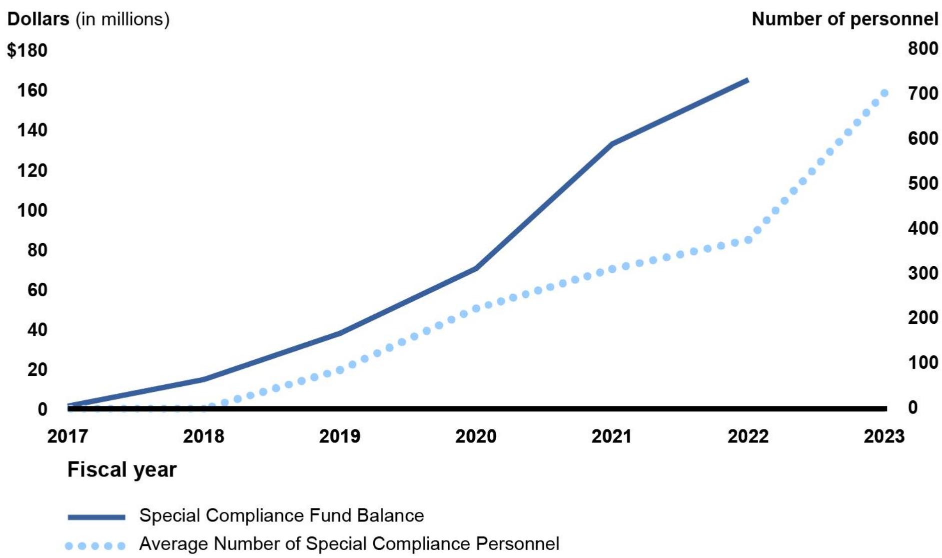
Source: GAO analysis of Internal Revenue Service data. I GAO-24-106140

Note: This figure shows costs IRS pays out of its Special Compliance Fund. There are additional costs associated with the PDC program. IRS must pay contractor commissions for payments they recover from taxpayers assigned to the PDC program.

IRS officials said they make Special Compliance Personnel hiring decisions based on fund availability. They said they used a conservative hiring approach during fiscal years 2020 through 2022 to account for several factors they expected would decrease PDC program taxpayer payments. For example, the 2019 Taxpayer First Act excluded more taxpayers from the program. Also, the 2021 contract renewal process reduced the number of contractors from four to three. Additionally, IRS restricted contractor outreach to taxpayers during part of the COVID-19 pandemic.

However, PDC program payments exceeded IRS's projections during those years. Combined with IRS's conservative hiring approach, the collected revenue led to a substantial increase in the Special Compliance Fund's balance, as shown in figure 6.

Figure 6: IRS's Special Compliance Personnel Program Fund Balance Has Grown since Fiscal Year 2017



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Accessible Data for Figure 6: IRS's Special Compliance Personnel Program Fund Balance Has Grown since Fiscal Year 2017

Fiscal Year	Available Balance in SCPP Fund (carried forward to next year) in Dollars	Average Number of Special Compliance Personnel
2017	$1,248,400	0
2018	$14,599,400	0
2019	$37,753,600	86
2020	$70,242,400	223
2021	$132,651,000	311
2022	$164,844,000	376
2023	0	703

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106140

Note: The Special Compliance Fund balance is the amount IRS carries over to the next fiscal year after adding the preceding year's balance to the retained Private Debt Collection (PDC) program earnings and subtracting Special Compliance Personnel costs and PDC program administrative expenses. An IRS report containing the fiscal year 2023 fund balance was not available as of January 2024.

IRS officials also said their conservative hiring approach was based on not having an accurate historical model to predict PDC program payments. For fiscal years 2021 and 2022, IRS developed a new revenue collection projection model that IRS officials believe will more accurately predict future revenue collected. IRS officials said they expect the model will enable them to better manage further balance growth.

IRS has also increased the number of Special Compliance Personnel, which will increase Special Compliance Fund costs. These costs could help IRS to manage the growing fund balance. In fiscal year 2022, IRS increased the number of Special Compliance Personnel by over 350, the largest increase in one year. As shown in figure 6, IRS maintained an average of over 700 Special Compliance Personnel in fiscal year 2023.

Based on revenue projections, IRS plans to convert 160 collection staff to work under the Special Compliance Fund and hire an additional 400 Special Compliance Personnel in fiscal year 2024. Based on those current projections, IRS estimates it will be able to eventually bring the total Special Compliance Personnel up to around 1,400 and maintain that staffing level for 10 years.

However, IRS has not developed clear fund balance goals or staffing targets for managing its Special Compliance Fund. IRS officials said managers made hiring decisions based on revenue model estimates of available funds, rather than strategic goals such as reducing a case backlog.

In our work on leading practices for managing special funds, we reported that it is important for agencies to set clear goals for special funds—such as minimum and maximum reserve levels—and clarify how the fund will be implemented to help ensure agency accountability and transparency.[30] IRS's approach of approving hiring decisions based on what was presently available in the fund may have made sense in the absence of historical data and as the agency navigated PDC program changes and other uncertainties. However, IRS has administered the PDC program since 2017 and the agency has more information about the Special

[30]GAO-13-820.

Compliance Fund's performance, allowing for a more strategic approach to fund management.

Without establishing clear special fund balance goals, IRS runs the risk of not optimizing fund performance based on management goals. This special fund enables IRS to hire collection staff to work cases that IRS would otherwise lack resources to pursue. As stated above, Special Compliance Personnel have been productive for IRS Collection, having recovered over $1.1 billion in unpaid debt in fiscal year 2022 alone. Clear goals could help ensure IRS uses this fund to supplement its other collection efforts in the most strategic ways possible, such as providing surge capacity if collection cases are projected to increase or providing consistent staffing levels over a defined time period.

IRS Has Not Yet Implemented Past Recommendations to Improve PDC Program Performance

In 2019, we made 12 recommendations to IRS to improve the PDC program.[31] Of those, two are related to improving PDC program case assignment efficiency and enhancing potential revenue collection. IRS has not yet addressed these two recommendations as of January 2024. Specifically, we recommended that IRS not assign cases to the PDC program that it identified as not potentially collectible. We also recommended that IRS identify cases that it will not pursue that can be assigned to the PDC program to improve performance. The Treasury Inspector General for Tax Administration (TIGTA) issued a similar recommendation in 2018, that IRS should prioritize assignments based on collectability.[32] TIGTA reiterated this recommendation in its 2023 PDC program biannual report.[33]

Excluding cases that are not collectible. IRS has data that could enable it to identify cases that are not collectible. As mentioned earlier, contractors have historically collected around 3 percent of the dollar value

[31]GAO-19-193. As of January 2024, IRS has fully addressed eight of our recommendations and four remain open.

[32]Treasury Inspector General for Tax Administration, Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited, 2018-30-052, (Washington, D.C.: Sept. 5, 2018).

[33]Treasury Inspector General for Tax Administration, *Fiscal Year 2023 Biannual Independent Assessment*.

assigned to the PDC program, which indicates a substantial number of cases assigned will not be collectible.

IRS conducted research to identify taxpayers who were currently unable to pay anything toward their debt. IRS used this research to develop a statistical model that predicts which taxpayers are unlikely to pay their debt. IRS uses this model to identify cases it does not believe are worth pursuing and routes those cases to the shelf. From there, the cases, unless exempted for legal reasons, are assigned to the PDC program, even though IRS has predicted the taxpayer is unlikely to pay.

IRS has also implemented tracking codes that enable it to identify the reasons why PDC program cases are recalled to the agency or returned to the agency by the program contractors. These codes include reasons such as a contractor was unable to collect or unable to contact the taxpayer.

By using such data, IRS could analyze and predict which cases will not be collectible in the PDC program and not assign them to the program, which could reduce program costs and taxpayer burdens. IRS officials said they are required to assign certain cases to the PDC program. However, we have previously reported that IRS has existing discretionary authority to exclude cases from the PDC program if IRS determines they are not potentially collectible.[34]

IRS could develop different collection interventions or statuses better suited to those taxpayers' circumstances or stop collection efforts, if appropriate. The National Taxpayer Advocate made a similar recommendation in the 2018 Annual Report to Congress. Specifically, the National Taxpayer Advocate recommended IRS use its existing data to identify taxpayers at risk of financial hardship and develop a different status for them within the Automated Collection System.[35]

Assigning cases to the PDC program sooner. IRS also has data that could enable it to identify cases to assign to the PDC program sooner

[34]GAO-19-193. As we discuss in our report, the statute defines "inactive tax receivables" as being in "potentially collectible inventory" but does not define "potentially collectible inventory." We also noted that IRS has the discretion to define "potentially collectible inventory" under its general rulemaking authority in 26 U.S.C. § 7805 and can use this authority to determine which cases are potentially collectible and which are not.

[35]Taxpayer Advocate Service, *2018 Annual Report to Congress* (Washington, D.C.: Feb. 12, 2019).

than legally required, thereby increasing the likelihood of collection. According to IRS data, in each fiscal year from 2017 through 2023, between 55 percent and 70 percent of cases routed to its collection queue were assigned to IRS collection units within 12 months or less. However, IRS data show that in each year an average of over 600,000 cases eligible for PDC program assignment remained in the queue for up to 2 years.[36]

IRS could analyze cases not assigned to a collection unit prior to 2 years, such as after 12 months, as a way to identify cases to assign earlier to the PDC program.[37] Such analysis could improve collectability because collection success generally worsens as cases age. For example, TIGTA found that cases with newer business debts in the PDC program made more payments on average than cases with older debts.[38]

IRS officials said they have not implemented these two recommendations because assigning cases to the PDC program sooner could prevent IRS from using its internal collection interventions that they believe are more efficient. The officials also said their current process complies with the law, which mandates which cases they can assign and when. Therefore, they believe further analysis is unnecessary.

However, the law does not preclude IRS from conducting these analyses, nor does it preclude IRS from assigning cases sooner than required. We continue to believe that implementing our recommendations would improve program efficiency and potential collection amounts. IRS estimates the PDC program will generate over $600 million in payments in fiscal year 2024. We estimate that improving collection by 1 percent could increase revenue collection by over $6 million for the next year. IRS already has the data to inform these analyses. Moreover, IRS made a commitment as part of its IRA Strategic Operating Plan to use data to

36We analyzed cases assigned between fiscal years 2019 and 2022 because 2019 was the first year IRS assigned both individual and business cases to the PDC program and 2022 was the most recent full year for which data were available.

37IRS uses its routing models to analyze its case inventory every 12 months to determine whether case circumstances changed—such as increased taxpayer income—and would warrant routing a case to a different collection unit. However, IRS could conduct additional analyses to determine whether the cases that remain in the queue could be assigned to the PDC Program sooner to increase collectability.

38Treasury Inspector General for Tax Administration, *2023 Biannual Independent Assessment*.

improve tax administration. Implementing these recommendations is an opportunity to advance that goal.[39]

IRS Has Not Defined Standards to Evaluate PDC Program Equity

Treasury and IRS have articulated a need to evaluate equity and disparities for individuals owing money to the federal government and to take steps to address any identified issues.[40] For example, Treasury's 2021 Equity Action Plan Summary says Treasury recognizes the importance of evaluating whether federal debt collection programs have standards in place to promote equitable outcomes.

Treasury released an implementation memorandum in June 2023 that requires all agency bureaus and offices to regularly audit their systems to determine whether compliance and enforcement practices result in unintended and unwarranted disparities across race, ethnicity, gender, age, marital status, geography, or other factors.[41] Further, if issues are identified, the bureaus and offices should take action as quickly as possible. IRS's Strategic Operating Plan Initiative 3.7 includes a similar key project to develop procedures to regularly evaluate the fairness of systems, selection tools and programs, compliance strategies, and treatments. However, IRS has not defined standards it can use to evaluate disparities or fairness related to the PDC program or take action to address any relevant disparities.

In the case of broad goals, such as those in Treasury's Equity Action Plan and IRS's Strategic Operating Plan, our past work on performance management has established that agencies need to define specific and

[39]IRS's Inflation Reduction Act Strategic Operating Plan Initiative 4.7 "Strategically use data to improve tax administration."

[40]Executive Order 13985 defined equity as "the consistent and systematic fair, just, and impartial treatment of all individuals, including individuals who belong to underserved communities that have been denied such treatment, such as Black, Latino, and Indigenous and Native American persons, Asian Americans and Pacific Islanders and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons who live in rural areas; and persons otherwise adversely affected by persistent poverty or inequality." Exec. Order No. 13985, 86 Fed. Reg. 7009 (Jan. 25, 2021).

[41]Department of the Treasury, Memorandum for Department Bureaus and Offices, "Principles for Promoting Fair and Effective Compliance" (Washington, D.C.: June 8, 2023).

measurable standards to assess their progress in accomplishing those goals.[42] These standards are target levels of performance to be accomplished within a time frame. They are generally expressed as tangible, measurable objectives, or as quantitative standards, values, or rates.

According to IRS Collection officials, they follow the legal requirements that dictate which cases to assign to the program and they do not consider equity as part of administering the program. While IRS is required to assign certain cases to the PDC program, IRS uses models and policy rules to determine which intervention, if any, taxpayers receive, and which cases are routed to the shelf for PDC program assignment. IRS evaluates these models based on their ability to predict recovery, but officials told us it does not evaluate them to determine whether the methods it uses result in equity concerns. For example, the different interventions applied could result in disparate outcomes for certain demographic groups.

Recent research indicates there may be disparities in IRS audits by taxpayer demographics, such as race, sex, family composition, filing status, location, and income. Most recently, a study identified disparities in audits by race.[43] The authors estimated that Black taxpayers are audited at higher rates than taxpayers of other races. A recent IRS presentation also suggested there are racial disparities in audits and identified algorithmic biases as a potential source of disparities.[44]

Based on the potential disparities in the audit process, there could also be disparities throughout the enforcement process, including tax debt collection.[45] IRS described efforts in a September 2023 press release it is undertaking to address equity issues in its audit process. Similar action

[42]GAO-23-105460.

[43]Elzayn, H. et. al., "Measuring and Mitigating Racial Disparities in Tax Audits" (Jan. 30, 2023).

[44]Hertz, T. et. al., "Differences in Audit Rates by Race," Presented at the 13th Annual IRS/TPC Joint Research Conference on Tax Administration (June 22, 2023). TIGTA issued a report, *The Earned Income Tax Credit Examination Compliance Strategy Can Be Improved*, 2021-30-051 (Sept. 2, 2021), which also suggested there may be disparities in IRS audits.

[45]We are reviewing IRS efforts to address equity in audits and plan to issue a report in spring 2024.

could help IRS address any identified disparities associated with debt collection.

However, IRS cannot track progress toward meeting Treasury and IRS's broad equity goals without first more specifically defining standards for evaluating equity in the context of the PDC program. For example, IRS could establish standards to compare the rates at which certain demographic groups are routed to the shelf and determine whether any identified disparities are unintended and unwarranted. These standards would similarly enable IRS to identify and remediate any issues in which its processes do not meet those standards. Taking these steps would better position IRS to determine whether taxpayers with debt get equitable services, information, and opportunities to meet their tax obligations, or whether there are potential disparities associated with the program.

IRS Does Not Tailor Its Notices for Taxpayers Excluded from the PDC Program

IRS is required by law to exclude certain taxpayers from the PDC program. Those categories include victims of tax-related identity theft, individuals under 18, and individuals in designated combat zones.[46] The Taxpayer First Act also required IRS to exclude certain taxpayers with limited financial means. Specifically, the act excluded individuals whose income did not exceed 200 percent of the poverty line or whose income substantially comes from Social Security's disability programs.

IRS excludes cases that fall under those categories from the PDC Program based on the law but may choose to route them to the shelf based on factors such as a calculated low likelihood of recovery or low unpaid balance. For example, as of March 2023, IRS identified about 1.2 million individual taxpayers who were on the shelf and excluded from the PDC program due to limited financial means, over 250,000 who were excluded because of identity theft, and over 200,000 who were excluded because they were deceased.

According to IRS officials, IRS does not actively work cases on the shelf but does not close them either. IRS reevaluates them once per year using its routing models. If the taxpayers' circumstances have changed, such as through a new income tax filing, IRS's models might route the cases to a

[46]26 U.S.C. § 6306(d).

different collection unit. Otherwise, certain cases, such as taxpayers with limited financial means, generally remain open on the shelf until the statute of limitations expires or the debt is resolved. Until the balance is resolved, the taxpayer continues to accrue interest and penalties. If the taxpayer receives tax refunds, IRS applies those to the debt–even if the refund is due to credits designed to alleviate poverty, such as the Earned Income Tax Credit.

IRS has information on its website about how to resolve tax debts and mails annual notices to all taxpayers with debts, as required by statute.[47] However, IRS does not tailor its communications to taxpayers on the shelf who are excluded from the PDC program. IRS has data to identify these taxpayers, which it uses to exclude them from the program, but it does not adjust its notice language or frequency to better inform them of their options.

Most of IRS's notices contain boilerplate language rather than language tailored to taxpayers' circumstances. For example, the notices warn taxpayers that their debt may prevent the State Department from issuing or renewing their passports. However, this law only applies to individuals whose debt is at least $62,000. IRS does not use its available data to determine whether the taxpayer receiving the notice had a debt around this amount. Moreover, IRS officials said low debt amount is one factor IRS uses to route cases to the shelf. The debt amount IRS uses falls substantially below the $62,000 threshold.

IRS also does not tailor its payment language to reflect taxpayers' circumstances. For example, IRS does not use its data to offer proactive debt resolutions to taxpayers who may be good candidates for offers in compromise and encourage them to apply.[48]

Additionally, taxpayers who fall in certain exclusion categories may have unique communication needs. The most prevalent taxpayer exclusion category is those with limited financial means. IRS's Strategic Operating Plan indicates that poor customer service can be particularly challenging

[47]26 U.S.C. § 7524 requires IRS to mail a written notice "not less often than annually" but does not prohibit more frequent notices or other communication.

[48]Offers in compromise allow taxpayers to settle their debt for less than the amount they owe.

for individuals with limited financial means.[49] Therefore, providing them with tailored, taxpayer-centric information is particularly important.

IRS does not adjust its communication frequency or method to increase the likelihood of these taxpayers receiving the notices. Research has shown and stakeholders who assist low-income taxpayers with tax preparation note that lower-income taxpayers are more likely to be in unstable housing and may move more frequently.[50] Since IRS's notices are mailed to the last known mailing address once per year, these taxpayers may be less likely to receive the notices if they have moved to a new address.

IRS's notices also do not provide information to connect these taxpayers to resources designed to assist lower-income taxpayers in resolving their debts. For example, the notices do not contain information about local Low-Income Tax Clinics or organizations that offer Volunteer Income Tax Assistance.[51]

IRS's Inflation Reduction Act Strategic Operating Plan describes IRS's plans to provide taxpayers with more tailored and helpful information, including initiatives to (1) develop taxpayer-centric notices with personalized language in place of boilerplate wording, (2) offer proactive debt resolution to taxpayers, and (3) tailor collection contacts using preferred communication channels.[52] As part of offering proactive debt resolution, IRS plans to identify options best suited to taxpayer circumstances and refine resolution options to be more effective at

[49]Strategic Operating Plan initiative 1.1, "Improve the availability and accessibility of customer service."

[50]Phinney, Robin; Danzinger, Sheldon; Pollack, Harold; Seefeldt, Kristin, "Housing Instability Among Current and Former Welfare Recipients,"*American Journal of Public Health* (May 2007); 97, 5. DeLuca, Stefanie; Wood, Holly; Rosenblatt, Peter, "Why Poor Families Move (And Where They Go): Reactive Mobility and Residential Decisions;" City & Community (June 2019): and Phinney, Robin, "Exploring Residential Mobility among Low-Income Families," *Social Service Review* (December 2013).

[51]Low-Income Tax Clinics are organizations funded, in part, by federal grants administered by the Taxpayer Advocate Service. They can assist taxpayers whose income falls below 250 percent of the poverty line in resolving tax issues with the IRS. The Volunteer Income Tax Assistance grant program is an IRS initiative designed to support free tax preparation service for the underserved through various partner organizations. This service helps low-to-moderate-income individuals, persons with disabilities, the elderly, and limited English speakers file their taxes each year.

[52]Strategic Operating Plan initiatives 2.3, 2.5, and 2.7.

reducing debt.[53] To tailor collection contacts, IRS plans to expand the number of communication methods it uses to include taxpayer preferences such as emails and text messages.[54] These initiatives are consistent with the Taxpayer Bill of Rights which states that all taxpayers have the right to be informed and to quality service.[55]

IRS officials told us they plan to conduct expansive stakeholder outreach to develop taxpayer-centric communications including soliciting opinions from taxpayer representative organizations and conducting taxpayer surveys as part of implementing its Strategic Operating Plan initiatives. However, IRS does not currently plan to develop outreach or proactive debt resolution methods specific to taxpayers excluded from the PDC program.

According to IRS Collection officials, IRS does not believe it is worthwhile to devote additional resources beyond the required annual notices to cases its models or policies have determined are unlikely to lead to recovery. While this approach makes sense from a business perspective, IRS has a broader mandate to provide quality service to all taxpayers as articulated in the Taxpayer Bill of Rights and its Strategic Operating Plan initiatives. Moreover, IRS has a unique opportunity. It has increased funding for the first time in a decade, top leadership commitment to improving customer service, especially for more vulnerable and marginalized taxpayers, and a strategic plan to bring about these changes.

IRS's current one-size-fits-all approach is a missed opportunity to get taxpayers in the door to settle their debts and get back into compliance. In the absence of tailored taxpayer-centric notices and proactive debt resolution offers, taxpayers on the shelf excluded from the PDC program may not be aware of their cases' statuses, the consequences of not resolving their debts, and the best options to dispute and resolve their debts.

[53]Strategic Operating Plan, Initiative 2.5, Key project 1, "Develop analytics to identify the repayment options best suited to each taxpayer's circumstances," Key project 5, "Refine resolution options to be more effective at reducing debt and easier for taxpayers to use."

[54]Strategic Operating Plan Initiative 2.7.

[55]See 26 U.S.C. § 7803(a)(3).

Conclusions

The PDC program is one part of IRS's enforcement efforts to collect unpaid tax debts and give all taxpayers confidence that everyone is paying their fair share. Additional analysis of readily available data and outreach could enhance those collection efforts.

IRS has used a portion of the outstanding tax debt private collection agencies recovered to fund the Special Compliance Fund and hire additional employees to work more collection cases to collect more revenue. However, the absence of clear fund balance goals or staffing targets may prevent IRS from optimizing fund performance based on management goals.

Recent Treasury and IRS guidelines have established that IRS has an important role to play in promoting equitable outcomes for taxpayers. However, IRS has not established standards for evaluating PDC program equity. Such standards could enable IRS to determine whether there are potential disparities associated with the program and take steps to address any identified issues.

Approximately 1.6 million taxpayers are excluded from the PDC program for various reasons, including limited financial means. IRS's communication with these taxpayers is limited to an annual mailed notice with mostly boilerplate language. These notices do not provide additional information that could be beneficial, especially to vulnerable or marginalized taxpayers, such as local resources or proactive debt resolution options. Until IRS provides more tailored, taxpayer-centric notices, these taxpayers may not understand their case statuses, the consequences of not resolving their debts, and the best options to dispute and resolve their debts.

Recommendations for Executive Action

We are making the following four recommendations to IRS:

- The Commissioner of Internal Revenue should establish clear fund balance goals or staffing targets for IRS's Special Compliance Fund. (Recommendation 1)
- The Commissioner of Internal Revenue should establish standards for evaluating equity for taxpayers who are either assigned to or excluded

from the PDC program, including IRS's process of routing taxpayers to the inactive inventory (shelf). (Recommendation 2)

- The Commissioner of Internal Revenue should assess IRS's performance against its standards for equity and take actions to address any identified issues. (Recommendation 3)
- The Commissioner of Internal Revenue should provide taxpayers in the inactive inventory (shelf) and excluded from the PDC program tailored taxpayer-centric information about their debts and options for resolving them. (Recommendation 4)

Agency Comments

We provided a draft of this report to IRS for review and comment. In its written comments, reproduced in appendix II, IRS agreed with our four recommendations and described steps it plans to take in response to each recommendation. IRS also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, Secretary of the Treasury, Commissioner of Internal Revenue, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or at lucasjudyj@gao.gov. Contact points for our

Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

Jessica Lucas-Judy
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) identify characteristics of taxpayers in the Private Debt Collection (PDC) program and (2) assess the extent to which the Internal Revenue Service (IRS) is effectively managing the program and promoting equitable outcomes among taxpayers.

For purposes of reporting on the PDC program, we focused on those taxpayers who were eligible for assignment to the program, generally those routed to IRS's inactive inventory that we and IRS refer to as the shelf. We examined aspects of the program pertaining to taxpayers assigned to the PDC program as well as those taxpayers who were routed to IRS's shelf but excluded from the program based on legal requirements.

To address our first objective, we interviewed IRS officials and analyzed IRS and Social Security Administration (SSA) data accessible in IRS databases on taxpayers in the PDC program. We used IRS data sources, including Unpaid Assessments and Compliance Data Warehouse (CDW), to identify individual and business taxpayer cases that IRS assigned to the PDC program from calendar years 2017 through 2023, the most recently available data.[1]

To identify taxpayers assigned to the PDC program we obtained a count of individual and business taxpayers who were assigned to the program at any point during each calendar year by using a code in CDW for tax debt cases assigned to a contractor. For purposes of our analysis, we relied upon income tax return filings to determine whether to classify a taxpayer as an individual or business. Since sole proprietorship income was filed on individual taxpayer returns, we included those taxpayers as individuals. We used the data on individual and business taxpayers in the PDC program to identify characteristics of taxpayers over time. More specifically, we completed the below steps.

[1]Because of when business taxpayers were added to the program, there are only business records beginning in 2019.

To identify the sex of individual taxpayers we used SSA data housed in CDW associated with taxpayers' Social Security numbers. We used these data to provide counts of the number of taxpayers in the PDC program who were identified as male or female.[2] SSA currently requires individuals to be identified as either male or female and we relied upon this classification.

To identify the age of individual taxpayers we used SSA data associated with individual taxpayers' Social Security numbers as described for sex. We used data for all taxpayers in IRS Collection and all taxpayers who filed income tax returns between tax years 2017 and 2022 to provide contextual comparisons between the ages of taxpayers in the PDC program and those comparison groups.

To identify the income of individual taxpayers, we obtained a summary of the Adjusted Gross Income of individual taxpayers assigned to the PDC program and classified them in ranges of income. We calculated income for taxpayers who filed an income tax return in each calendar year. Taxpayers who did not file an income tax return in that calendar year were omitted from our analysis because prior year incomes might not accurately reflect that year's income. For taxpayers who did not have an apparent Form 1040 filing in the current year, we used a CDW table to identify their spouses, then found all joint filings with the spouse listed as primary filer. In this way, we were able to account for the joint liability of taxpayers in the PDC program, even if they did not appear as the primary filer on Form 1040 returns.

To identify the filing status of individual taxpayers and their number of dependents, we used variables in CDW assigned to income tax return filings. Since filing status and dependents can change from prior years, we calculated those characteristics for taxpayers who filed an income tax return in that calendar year. Taxpayers who did not file an income tax return were omitted from our analysis.

To identify the income of business taxpayers, we used CDW variables for income tax returns filed by partnership and corporations. We identified that most corporations did not file income tax returns in the calendar years they were assigned to the PDC program. We used CDW variables for filing requirement to identify which taxpayers IRS believed were required to file an income tax return in each calendar year. Of those

[2]For a small number of individuals (.01 percent) the sex was unknown.

taxpayers identified as having a filing requirement, we identified the number of taxpayers who filed income tax returns.

To identify individual and business taxpayers' debt amounts we used variables available in CDW to identify the debt amount for each taxpayer for each month and year that taxpayer was assigned to the PDC program. Since debt amounts can fluctuate over time, we calculated an average debt amount for each calendar year.

We reviewed an IRS data dictionary and other documentation, obtained written responses and other feedback from knowledgeable IRS officials about data quality, completeness, and quality control procedures, and conducted electronic testing to verify the reliability of these data. We determined that the data were sufficiently reliable for our reporting objective.

To address our second objective, we interviewed IRS officials to understand PDC program operations and management including how IRS determines which cases to assign to the PDC program. We also asked them about IRS's transformation plans in implementing its Strategic Operating Plan. To inform our understanding of the program and identify potential strengths and opportunities for improvement, we sought feedback from stakeholders. We identified six stakeholder categories based on our past tax work and research to select individuals or organizations that might have experience with the PDC program. Those categories included current contractors, commercial tax preparers, taxpayer advocacy organizations, academics, and think tanks. We obtained responses from the organization that represents current private debt collection contractors, the American Institute of Certified Public Accountants, the Center for Taxpayer Rights, and Taxpayer Advocate Service.

To assess IRS's management of its Special Compliance Fund, we analyzed IRS data on fund revenue collected, costs, fund balance, and Special Compliance Personnel staffing levels. We reviewed IRS's fund management documentation, including revenue collection projections, Special Compliance Personnel hiring decisions, and IRS's projections for the length of time it could maintain staffing levels based on hiring decisions. We interviewed IRS officials about IRS's special fund management practices and goals and strategies for using the special fund for collecting tax debt. We compared IRS's management practices to leading practices for managing special funds we identified in prior work.[3]

We reviewed open recommendations from our 2019 report to identify remaining opportunities for IRS to improve its PDC program management.[4] We reviewed recent Treasury Inspector General for Tax Administration (TIGTA) reports to supplement our understanding of PDC program performance with data that TIGTA collected. We interviewed IRS officials and reviewed documentation about how IRS routes cases for PDC program assignment and data that IRS collects about collection cases. We reviewed IRS data about its queue and program performance, including the type of cases and the amount of time it takes on average for IRS to assign cases to collection units or the PDC program to determine whether opportunities exist to improve program performance.

To better understand potential equity issues involving the program, we interviewed staff from organizations that represented taxpayers with limited financial means who owe tax debt, including the Center for Taxpayer Rights, one legal aid organization, and one low-income tax preparation organization. We identified these organizations based on our past tax work and their experience in dealing with the PDC program. We also interviewed officials from the Taxpayer Advocate Service and TIGTA who have examined the PDC program to learn more about their past work involving program equity.

Based on our interviews, we reviewed scholarly papers to determine whether issues identified by the organizations were supported by existing research about individuals with limited financial means.[5] Those issues included an increased likelihood of changing mailing addresses.

Additionally, recent research indicates there may be disparities in IRS audits by taxpayer demographics, such as race, sex, family composition, filing status, location, and income. One study provided direct evidence on

[3]GAO, *Federal User Fees: Fee Design Options and Implications for Managing Revenue Instability*, GAO-13-820 (Washington, D.C.: Sept. 30, 2013).

[4]GAO, *Tax Debt Collection Contracts: IRS Analysis Could Help Improve Program Results and Better Protect Taxpayers*, GAO-19-193 (Washington, D.C.: Mar. 29, 2019).

[5]We searched Scopus, EBSCO, and ProQuest databases for housing stability for individuals with limited financial means using key words like "low-income," "housing," "evict," "stab," and "instab*."

racial disparities in IRS audits.[6] We conducted a detailed review of that study to assess its reliability. The authors presented validation analyses that supported the study findings. While we determined that analysis was reliable for the purpose of this report, we identified some potential limitations.[7]

We also collected IRS data about the number of taxpayers who were excluded from the PDC program by exclusion category.

We reviewed strategic and planning documents, such as the Department of the Treasury's 2021 Equity Action Plan and IRS's 2023 Inflation Reduction Act Strategic Operating Plan to identify Treasury and IRS equity goals. We assessed IRS's progress in achieving the Treasury and IRS equity goals against relevant criteria from our past work on performance management.[8] We also assessed IRS outreach efforts to educate taxpayers about their debt resolution options against Strategic Operating Plan goals and the Taxpayer Bill of Rights.

To assess the reliability of the data we reviewed for objective two, we collected written responses from knowledgeable IRS officials about data quality, completeness, and quality control procedures. We determined these data were sufficiently reliable for our purposes.

We conducted this performance audit from July 2022 to February 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

[6]Elzayn, H. et al., *Measuring and Mitigating Racial Disparities in Tax Audits*, Stanford Institute for Economic Policy Research (Jan. 30, 2023)

[7]The study relies on the Bayesian Improved First Name Surname and Geocoding method to predict the race of the taxpayer. Academic researchers have used this method, which uses name and geolocation, to statistically predict a person's race. The authors used data on self-reported race from voter registries in North Carolina before 1993 to validate the Bayesian Improved First Name Surname and Geocoding method. Weighting was used to align these data to national data. Still, the voter registry data include more limited definitions for race for older people, which might not be exchangeable for the race responses for all filers in 2014. Another potential limitation is that mortgage records were used for first names, and this selection bias could be correlated with race, due to differences in home ownership between the Black and non-Black populations. To the extent the Bayesian Improved First Name Surname and Geocoding methodology is sensitive to these, the results may not apply to the full population of taxpayers.

[8]GAO, *Evidence-Based Policymaking: Practices to Help Manage and Assess the Results of Federal Efforts*, GAO-23-105460 (Washington, D.C.: July 12, 2023).

findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

DEPUTY COMMISSIONER

January 22, 2024

Jessica Lucas-Judy
Director, Tax Policy and Administration, Strategic Issues Team
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

Thank you for the opportunity to review your draft report, *Private Debt Collection Program, IRS Could Improve Results and Better Promote Equitable Outcomes for Taxpayers* (GAO-24-106140) and provide comments. We agree with the recommendations made by the Government Accountability Office (GAO).

The IRS implemented the Private Debt Collection (PDC) program as mandated by the Fixing America's Surface Transportation Act. Since its inception in April 2017, the IRS reactivated over 6.9 million inactive accounts and assigned them to private collection agencies (PCAs) to attempt collection. The PDC program enables the IRS to reach more taxpayers and a wider range of accounts that otherwise would remain inactive and not worked by the IRS. The PCAs assisted more than 1.4 million taxpayers to pay off their debts or reach affordable payment terms. With the PDC retained earnings, the IRS hired additional Special Compliance Personnel (SCP), now totaling more than 800 employees.

IRS's Special Compliance Personnel (SCP) Program Fund Balance has grown over the years and GAO recommends that the IRS establish fund balance goals or SCP staffing targets. We agree and have developed a Standard Operating Guide to manage the Special Compliance Personnel Fund. This guide establishes a regular cadence for monitoring the fund balance and maintaining it at a level sufficient to pay all allowable costs for at least one year to account for risks, uncertainties, or specific staffing needs.

We agree with GAO's recommendation to establish standards for evaluating equity for taxpayers and to assess IRS's performance against those standards. The IRS has an obligation to administer the law in a fair manner. This is central to the agency's mission and essential to fostering public trust. As outlined in the Inflation Reduction Act Strategic Operating Plan (SOP) in April 2023, our goal is to promote fairness for all taxpayers, including those taxpayers in PDC. The Transformation and Strategy Office is working closely with partners in Collection to operationalize standards. We agree with

2

GAO's recommendation to provide taxpayers in the inactive inventory with tailored, taxpayer-centric information about their debt and options for resolution. Also included in the SOP, we are redesigning notices to present the fastest, simplest possible solution for the taxpayer. For example, Collection has already started to redesign the annual reminder notice issued to taxpayers that are not active in collection, including those who are "shelved". The new notice will be customized to drive taxpayers towards self-help and is more proactive in providing the taxpayer options if they are unable to pay in full.

We appreciate the valuable feedback you have provided. Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Fred Schindler, Director, Collection, Small Business/Self-Employed Division.

Sincerely,

Douglas W. Odonnell Digitally signed by Douglas W. Odonnell Date: 2024.01.22 07:29:34 -05'00'

Douglas W. O'Donnell
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

GAO Recommendations and IRS Responses to GAO Draft Report
Private Debt Collection Program (24-106140)

RECOMMENDATION 1:
Commissioner of Internal Revenue should establish clear fund balance goals or staffing targets for IRS's Special Compliance Fund.

Comment: We agree with this recommendation. We recently developed a Standard Operating Guide to manage the Special Compliance Personnel (SCP) Fund. This guide establishes a clear goal for the fund balance to be sufficient to pay all allowable PDC Program Administration and SCP Program costs for at least one year to account for risks, uncertainties, or specific staffing needs. This guide also establishes a regular cadence for monitoring the fund balance and determining the appropriate number of SCP hires/conversions for the following fiscal year to achieve the fund balance goal.

Responsible Organization: Small Business/Self-Employed Division, Collection

RECOMMENDATION 2:
The Commissioner of Internal Revenue should establish standards for evaluating equity for taxpayers who are either assigned to or excluded from the PDC program, including IRS's process of routing taxpayers to the inactive inventory (shelf).

Comment: We agree with GAO that standards for evaluating equity for taxpayers are needed. As outlined in the SOP in April 2023, our goal is to promote fairness for all taxpayers, not just those taxpayers in PDC. TSO is working with stakeholders to develop standards to evaluate equity.

Responsible Organization: Transformation and Strategy Office

RECOMMENDATION 3:
The Commissioner of Internal Revenue should assess IRS's performance against its standards for equity and take actions to address any identified issues.

Comment: We agree with this recommendation. As we are developing the standards to evaluate equity for taxpayers who are either assigned to or excluded from the PDC program, we are developing methods to assess the IRS's performance against those standards

Responsible Organization: Transformation and Strategy Office

2

RECOMMENDATION 4:
The Commissioner of Internal Revenue should provide taxpayers in the inactive inventory (shelf) and excluded from the PDC program tailored taxpayer-centric information about their debts and options for resolving them.

Comment: We agree with this recommendation. As part of IRS's effort to redesign notices, Collection had already started to redesign the annual reminder notice issued to taxpayers that are not active in collection, including those who are "shelved". The new notice has been customized to drive taxpayers towards self-help tools and is more proactive in providing a taxpayer with options if the taxpayer is unable to pay in full.

Responsible Organization: Small Business/Self-Employed Division, Collection

Accessible Text for Appendix II: Comments from the Internal Revenue Service

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Responsible Organization: Small Business/Self-Employed Division, Collection

Appendix III: GAO Contact and Acknowledgments

GAO Contact

Jessica Lucas-Judy (202) 512-6806, lucasjudyj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Jessica Nierenberg, Assistant Director; Jonathan Ferguson, Analyst-in-Charge; Jieun Chang; Jacqueline Chapin; Lee Evans; Gina Hoover; Ronald W. Jones; Ed Nannenhorn; Alexander Shura; Dylan Stagner; Sonya Vartivarian; Peter Verchinski; and Alicia White made significant contributions to this report.

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