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Tax Gap Report

The latest information on America's growing tax gap from U.S. Senator Max Baucus (D-Mont.), Ranking Member, U.S. Senate Finance Committee

GAO REPORT INDICATES IRS NEEDS BETTER DATA ON PRIVATE DEBT COLLECTION AS WAY TO FIGHT TAX GAP

Washington, DC – A new report from the Government Accountability Office indicates that the use of private contractors to collect back taxes owed to the IRS may glean only a tiny fraction of outstanding tax debts over the next decade. The report, released today by U.S. Senator Max Baucus (D-Mont.), also found that the IRS has rolled out its pilot program of private debt collection without setting results-oriented goals and measures, or determining all program costs. This leaves the agency with no way to accurately evaluate whether the program is effective or cost-efficient. The difference between taxes legally owed and taxes actually collected in a timely fashion – known as the “tax gap” – is currently an estimated \$345 billion annually. But IRS use of private companies to collect back taxes is expected to bring in \$1.4 billion over the next ten years – only about one percent of the inventory of delinquent tax debt.



“Here again, the IRS seems to have a disconnect in its efforts to close the tax gap. If it’s clear that the amount they can bring in from private debt collection is already low, why are they not measuring to see if in-house collections would be cheaper and more efficient? Instead of fumbling efforts to close the tax gap that may just exacerbate the problem, we need focused, efficient methods to get the job done,” said Baucus. **“The IRS has got to accurately measure the results of the program to see whether it makes economic sense.**

IRS Commissioner Mark Everson has testified before the Senate that in the first two weeks of the pilot program currently underway, private contractors collected \$500,000 in taxes owed. Their commission on those collections can be as much as 24 percent, which would total \$120,000. However, recent testimony from GAO’s director of tax issues* has indicated a 13-to-one return on in-house telephone collection efforts at the IRS. This means that if the IRS spends \$120,000 on making in-house phone calls instead, the agency could collect as much as \$1.56 million in unpaid taxes. And in March of this year, Commissioner Everson admitted in testimony before a House Appropriations subcommittee that the use of private contractors to collect taxes would be more expensive than hiring more IRS collectors. The American Jobs Creation Act authorized the use of private debt collection agencies to collect Federal taxes owed. However, the use of private agencies is not required.

“I’ve been concerned all along about the use of private contractors to collect Federal taxes,” said Baucus. **“Tax collection is an inherent government function and the IRS ought to take care of it in-house.”**

The full report, **“IRS Needs To Complete Steps To Help Insure Contracting Out Achieves Desired Results and Best Use of Federal Resources” (GAO-06-1065)**, can be viewed at <http://www.gao.gov/docsearch/repandtest.html>.

* In GAO-06-1000T, Director of Tax Issues Michael Brostek indicates that the IRS return on investment from pursuing tax debts through phone calls is 13 dollars collected for every dollar spent.

Every year, hundreds of billions of dollars in legally owed taxes go uncollected in the U.S. Closing that “tax gap” will significantly strengthen America’s economy. Max Baucus has spearheaded efforts to reduce factors contributing to America’s growing tax gap.