Response to Questions from Joint Committee on Taxation
January 26th, 2007

1. Current Results
In its first few months, the Private Debt Collection (PDC) initiative has surpassed initial planning assumptions for revenue generated and compliance impact. Baseline projections call for a 12-15% collection yield over a 12 month period and two-thirds case resolution rate over a similar period. As more time passes, further conclusions can be drawn regarding actual performance vs. initial projections. In the first 2 months of operations, the dollars collected surpassed collections from the entire 1996-1997 program. The Private Collection Agencies (PCAs) have also performed well in their casework quality measures.

Category	Measure	Program Cumulative 9/7/06-12/21/06
Financial and Operations	Dollars Placed	$105.38 M
	Cases Placed	24,497
	Actual Payments	$11.04 M
	Commissionable Payments	$9.42 M
	Commissions Paid	$2.15 M
	Full Payments	1,666
	Installment Agreements	819
	Written Opt Out Requests	131
Quality	Taxpayer Satisfaction	94%
	Reported Contract Complaints	36
	Contract Fines Assessed	$0
	Taxpayer Advocate Service (TAS) Referrals	111
	Regulatory and Procedural Accuracy	97.3%
	Timeliness	98.2%
	Professionalism	100%

2. Composition of The First Placement of Cases Assigned to PCAs

a. Case Placement Characteristics for September 7, 2006 Placement
We were able to gather the information requested from our original placement of inventory. More time would be needed to analyze all cases that have been assigned since we would need to analyze each weekly placement separately. However, since cases assigned through January 25, 2007 were all from the same inventory group, we would expect the data to be similar for the approximately 26,000 assigned cases. All cases assigned on September 7, 2006 were individual income tax cases, with a single module balance due under $25,000 which is not under dispute by the taxpayer. These cases are drawn from Form 1040 delinquencies which can include returns with Schedules C, D, F as well as wage-earners. The table below shows the breakdown between Non-business Schedule cases and Schedule C and F cases placed with PCAs on September 7, 2006.

	Form 1040, Non-Business Schedules	Form 1040, Schedules C & F	Total
Number of Cases	6,905	4,657	11,562
Dollar Value	$45.26M	$20.02M	$65.28M

Cases are drawn from select inventory types that current IRS resources are not able to work through internal collection streams. Definitions of each current inventory type and their contribution to the September 7, 2006 placements is presented below.

Inventory Type	Definition	% Composition in First Placement
Status 24 (Queue)	Low Priority - Awaiting assignment based on available resources	54%
Transaction Code 530 Closing Code 03	Reported as Currently Not Collectible; Unable to Locate	1%
Transaction Code 530 Closing Code 12	Reported as Currently Not Collectible; Unable to Contact	10%
Transaction Code 530 Closing Code 39	Reported as Currently Not Collectible; Shelved due to lack of resources	35%

The majority of cases are based on balance due on return assessment sources as shown in the tables below. As previously stated all cases are agreed assessments and considered financial receivables by the IRS.

Assessment Source	% Composition in First Placement
Balance Due on Return	69%
Other Agreed Assessments	31%

b. Average Age of Debt for Cases Placed September 7, 2006

For cases placed on September 7, 2006, the average age of debt from time of initial assessment to selection for PCA assignment is 949 days (by number of cases) with the following distribution.

Aged Days	% Composition in First Placement
121 – 180 Days	0%
181 – 360 Days	34%
361 – 720 Days	12%
721 – 1080 Days	11%
1081 – 1440 Days	15%
1441 – 1800 Days	15%
1801 – 2160 Days	9%
2161+ Days	4%

* Includes 760 cases that were not sent to PCAs post-suppression

c. Average Amount of Debt for Cases Placed September 7, 2006

Average balance due based on the aggregate assessed balance is $5,645. Distribution of cases across dollar categories is shown below.

Dollar Category	% Composition in First Placement
< $1,500	22%
$1,500 - < $5,000	30%
$5,000 - < $10,000	31%
$10,000 - < $25,000	17%

d. Major Differences across Placements

For the period September 7 - December 19, 2006, the program placed cases with the characteristics listed in section 2a. Changes in the average amount of debt and the average age of debt are a result of adjustments across the four inventory types. For the 24,497 cases placed through December 19, 2006, the average age of debt is 1,018 days and the average balance due based on the aggregate assessed balance is $4,199. Beginning in February 2007, we will be making more substantial changes to the inventory mix as listed below.

Start Date	New Type of Placement
February 2007	Multiple year cases
February 2007	Cases between $25,000-$100,000 balance due
March 2007	Cases with a designated taxpayer representative (CAF) before assignment (Post-assignment CAF cases are already being placed)
May-September 2007	Test of cases with associated delinquent return (TDI)

3. Nature of the Liability of Cases Assigned to PCAs

All cases assigned to PCAs are financial receivables that are self-reported or agreed upon amounts with the taxpayer.

a. Age of Cases

While it is not feasible to report time from the date the taxpayer filed, IRS systems do track cases from time of posting. For cases selected on September 7, 2006, 82.5% are considered simple balance due cases indicating that the initial assessment is at the time of posting. For the remaining 17.5% of cases[1], the time between posting and assignment is expected to be between 1-3 years. An average and distribution of age based on initial assessment is presented in section 2b.

b. Criteria for Case Assignment

The IRS has developed collection inventory management strategies designed to prioritize existing receivables in accordance with the availability of the resources required to perform the work. For a case to then be assigned to a PCA, it must reach one of the qualifying statuses, and satisfy additional criteria including minimum age in current condition. The case is then placed in the available inventory pool for distribution based on the weekly selection for each firm.

c. IRS Activities on Cases

[1] Underreporter Program, Exam Assessments and Adjustments are considered non-simple balance due cases.

Prior to being placed with PCAs, all cases have undergone IRS low cost collection efforts including IRS notice streams. Depending on the case priority, cases may have been pursued by phone personnel.

d. Minimum Time to Case Assignment

Based on programming criteria and internal processes, the earliest a case could be placed with PCAs after posting in IRS systems is 4 months, which translates to about 6 months after filing.

e. Self-reported and Contested Cases

Cases selected for PCAs are self-reported liabilities and agreed upon assessments. If the taxpayer disputes their balance due after assignment to a PCA, PCA Policy and Procedures Guide outlines detailed procedures for handling Taxpayer Disputes. When the taxpayer disputes the tax amount or any penalties, the PCA must fully document all the taxpayer's issues and make a case referral to the Referral Unit (RU), staffed by IRS technicians, within 24 hours of securing the information. During the dispute review by the RU, the case will remain in the PCA's inventory; however the PCA must ensure no further collection activity takes place on the case until the RU contacts the PCA with written instructions. Also outlined are procedures for referring cases to the Taxpayer Advocate Service if the taxpayer indicates they have not received a response from the IRS after 30 days of mailing the request.

4. Dedicated Personnel

The IRS currently has 67 individuals working both full and part-time on project operations divided between SB/SE Headquarters, Philadelphia Service Center (PSC) and Kansas City Service Center (KCSC). This staffing encompasses the Oversight Unit (inventory management, contract administration and quality review), as well as the Referral Units (taxpayer telephone assistance and PCA case contacts). Staffing for the Oversight and Referral Units is projected to be 31.9 FTEs in FY07. During the initial phase the Referral Unit has been staffed to handle 100% of calls from taxpayers based on the IRS initial contact letter and to review 100% of the assigned cases for 40+ criteria prior to placement with PCAs.

Project team involvement is critical during the initial phases of this program with emphasis placed on ensuring systems are in place to prevent unauthorized disclosures, abridgement of taxpayer rights, etc. The project team is divided into leadership, technical, operations and strategy teams. The project leadership, technical and operations teams are expected to transition ongoing tasks to the permanent teams and stand down their work on the project during 2008. The precise transition will be mapped as we complete the next contract competition and finalize systems modifications required for inventory placements over the next few years. The Oversight Unit, Referral Unit and the strategy team, accompanied by some technical support, will remain on the project for its duration.

IRS has periodic extended onsite presence at PCAs during new technical releases and during scheduled quarterly reviews. IRS staff were on site during the months of September and October and partially in November. IRS staff will return to the PCAs for the month of February as we rollout technology enhancements. IRS does not have any personnel permanently on location at the PCAs but is able to remotely monitor calls and casework through its quality review processes.

5. Response to Issues Raised by Taxpayer Advocate Service

a. Release of Proprietary Information

Project officials, together with representatives from IRS Procurement and the Office of Chief Council, are evaluating the release of appropriate sections of proprietary information to the public, including portions of PCA operations plans and the scripts that PCA employees use in taxpayer contacts. All of these documents were previously provided to the National Taxpayer

Advocate. Further, the project team will include a statement in the next contract competition detailing the PCA-furnished information to be made available to the public.

b. Cost Effectiveness Study

In its original design, the study was created to determine the best use of additional funds to IRS by working the “next best case” as determined by IRS prioritization. This will illustrate the overall tax administration benefit of the use of PCAs and was covered in the GAO report issued in 2004. In addition to the “next best” comparison, the revised study will place cases with IRS personnel from the same inventory types as is being placed with PCAs. This will permit as direct a comparison as possible between similar PCA and IRS collection efforts.

c. English as a Second Language

PCAs have demonstrated initial capabilities for handling English as a second language cases. IRS has asked PCAs to report on their multi-language capabilities based on a “Readily accommodate”, “Accommodate with some effort”, “Accommodate through services available within the firm’s locality” basis. In addition, the Referral Unit has provided multi-language support to the PCAs. Project officials will include English as a second language support as a requirement in the next RFQ, rather than an operations plan item, using the level of support required in this phase as a baseline for the requirement.

6. Program Costs and Projected Revenues

Based on conservative projections for revenue, the program is expected to recoup all costs in FY08 and is projected to generate between $1.5B and $2.2B in revenue over ten years. In the latter years of the program (FY09 onward), the appropriated monies required to sustain the program are expected to remain constant.

	FY04/05	FY06	FY07	FY08	FY09
Projected Revenue	-	$0.57M	$45.7M	$88M	$124M
PCA Fees Estimated	-	-	$8.7M	$19.3M	$27.7M
Adjusted Net Revenue	-	$0.57M	$37M	$68.7M	$96.3M
Program & IT Costs	$38.18M	$15.83M	$15.3M	$7.4M	$7.4M
Net Benefit	**$ (38.18)M**	**$ (15.26)M**	**$ 21.7M**	**$ 61.3M**	**$ 88.9M**
Cumulative Net Benefit	**$ (38.18)M**	**$(53.44)M**	**$ (31.74)M**	**$29.56M**	**$118.46M**

Note: Infrastructure assessments for PDC are not yet determined.