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IRS Private Tax Collectors Are Accused Of Illegal Tactics

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Congress approved letting the IRS farm out some collections back in 2015. In 2017, the IRS made private collectors a reality. The IRS notifies taxpayers first that the debt is being farmed out, to help prevent scams. However, now some outside collectors are being accused of illegal practices. The New York Times reports that Pioneer Credit Recovery is urging people who owe taxes to raid their 401(k), get employer loans, increase credit card debt, etc. This letter sent by four U.S. Senators accuses Pioneer of violating numerous laws and policies and makes for sobering reading. Long before private collectors had any role in collecting tax debts, big concerns were voiced. The Inspector General for Tax Administration is critical here, as is National Taxpayer Advocate Nina Olson here.

But Congress went ahead, and the IRS has implemented it. The IRS will send a letter to the taxpayer and any authorized tax representative informing them that their account is being assigned to a collection agency. This letter gives the name and contact information for the collection agency. This mailing will include a copy of IRS Publication 4518, What You Can Expect When the IRS Assigns Your Account to a Private Collection Agency.

Once the IRS letter is sent, the designated private collector will send its own letter to the taxpayer (and representative) confirming the transfer. But now that IRS debt collectors are accused of illegal tactics, there may be added worries. The law says that employees of these collection agencies must follow the provisions of the Fair Debt Collection Practices Act. Like IRS employees, they must be courteous and must respect taxpayer rights. The private firms are authorized to discuss payment options, including setting up payment agreements with taxpayers. But as with cases assigned to IRS employees, any tax payment must be made, either electronically or by check, to the IRS.

A payment should never be sent to the private firm or anyone besides the IRS or the U.S. Treasury. Checks should only be made payable to the United States Treasury. Private firms are not authorized to take enforcement actions against taxpayers. Only IRS employees can take these actions, such as filing a notice of Federal Tax Lien or issuing a levy. See the Private Debt Collection page on IRS.gov. If taxpayers are unsure whether they have an unpaid tax debt from a previous year – which is what the private collection firms will handle – they can go to IRS.gov and check their account balance: www.irs.gov/balancedue.

The IRS and its contractors are never supposed to:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. Generally, the IRS will first mail a bill to any taxpayer who owes taxes, and if a case is assigned to a PCA, both the IRS and the authorized collection agency will send the taxpayer a letter. Payment will always be to the United States Treasury.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand that taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.
- Ask for credit or debit card numbers over the phone. For more information, visit the "Tax Scams and Consumer Alerts" page on IRS.gov.

Taxpayers who owe $50,000 or less in combined tax, penalties and interest can use the online payment agreement to set up a monthly payment agreement for up to 72 months. Taxpayers can choose this option even if they have not yet received a bill or notice from the IRS. With the Online Payment Agreement, no paperwork is required, there is no need to call, write or visit the IRS and qualified taxpayers can avoid the filing of a Notice of Federal Tax Lien if one was not previously filed. Alternatively, taxpayers can request a payment agreement by filing Form 9465. This form can be downloaded from IRS.gov and mailed along with a tax return, bill or notice.

Some struggling taxpayers may qualify for an offer-in-compromise. This is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. The IRS looks at the taxpayer's income and assets to make a determination regarding the taxpayer's ability to pay. To help determine eligibility, use the Offer in Compromise Pre-Qualifier, a free online tool available on IRS.gov. If you have a large tax debt, you might also have trouble traveling, since the IRS can move to revoke passports. If you owe more than $50,000, consider ways to keep IRS from taking your passport.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.

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