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At least IRS efforts to use private debt collectors, which have failed in the past, aren't losing money, according to a new report by the Treasury Inspector General of Tax Administration (TIGTA). But the program is far from a roaring success.

("Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited," TIGTA Ref. No. 2018-30-052, 9/5/18).

Private tax debt collection was authorized by a highway spending measure, the Fixing America's Surface Transportation (FAST) Act, without much fanfare in 2015. The IRS had gone down this path twice before – kicking off private debt collections in 1996 and again in 2006. With both attempts, the programs paid out more than what they brought in, so they weren't cost-effective.

Unlike the other two attempts, this time the private debt collectors are focusing on "cold" accounts the IRS has placed on the back-burner. TIGTA says that the latest program has cost $55.33 million to run while generating $56.62 million from more than 500,000 accounts. Thus, it has "turned a profit" of almost $1.3 million.

Nevertheless, this is just a drop in the bucket of the $4.1 billion in accounts assigned to the private debt collectors. Obviously, where the trail has gone cold, it's more difficult to pick up the scent. That costs time and money, acknowledges TIGTA.

But the new report also addresses other concerns with the private tax debt collection program. From its outset, the Private Collection Agencies(PCAs) have been accused of bullying and strong-arm tactics. To compound the problems, the complaint process essentially consists of private debt collectors reporting on themselves to TIGTA.

While 9,500 individuals contacted the IRS for assistance regarding the program,

it will never call taxpayers to collect payments. In fact, the private collection firms do. Here's how it works:

1. The IRS transfers the account to a PACA and sends a letter to the taxpayer.

2. The PCA sends a "follow-up" confirming the IRS letter.

3. Then PCA rep initiates a call to the taxpayer, asking for the first five digits of the appropriate Taxpayer Authentication Number (TAN).

4. Finally, the rep provides the taxpayer with the final five digits, creating a two-party authentication.

However, if the taxpayer doesn't have a TAN or can't remember the digits, the PCA can authenticate by providing a name, address and date of birth. If these check out, the rep can request the first five digits of the taxpayer's Social Security number. This results in increased exposure to ID theft.

"Tax scammers could exploit this process in an effort to steal the taxpayer's identity," said TIGTA in the report. "Second, taxpayers may be more inclined to discontinue the call because requesting sensitive information is common in a scam. Such practices could undermine the taxpayers' faith in the legitimacy of the PCA and ultimately hinder the collection of taxpayer debts."

National Taxpayer Nina E. Olson, the internal watchdog of the IRS, has long been critical of the program as well. Olson recently noted the private collection efforts are targeting low-income taxpayers. For instance, 28% of the accounts show income below $20,000, 19% have income below the federal poverty level and 44% have income below 250% of the poverty level. Both Olson and TIGTA have concluded that improvements must be made if private debt collection is to continue.