Mr. Chairman and Members of the Subcommittee:

We are here at your invitation to discuss the provisions of Senate bill 1249 that are being considered by your subcommittee. We support the purpose of this bill—to increase the efficiency of Government-wide efforts to collect debts owed the United States.

Debts arise from a host of Federal activities . . . from tax assessments to benefit and administrative overpayments, to overdue student and housing program loans. Most of these debts are paid routinely. However, some are not and amounts owed and being written off as uncollectible are substantial and growing rapidly.

Federal agencies recently reported that receivables from U.S. citizens and organizations exceeded $139 billion at the
start of fiscal 1981--a 36 percent increase in the last 2 years. As of September 30, 1979, Federal agencies reported that $24 billion due from U.S. citizens and organizations was delinquent, of which $13 billion represented delinquent taxes. For fiscal 1979 agencies wrote off as uncollectible receivables totaling more than $1 billion. Gloomy as these statistics are they are probably understated. The accounting systems of many agencies do not provide accurate information on receivables, expected losses and writeoffs.

Before the Government's debt collection problems can be remedied, many actions--administrative and legislative--must be taken. In general, there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, debt collection has generally been afforded low priority with emphasis on disbursing funds rather than collecting them. Second, present Government collection methods are expensive, slow, and ineffective when compared with commercial practices. Unless Federal agencies are provided with essential collection tools and resources and until they aggressively pursue the collection of debts, hundreds of millions of dollars will continue to be needlessly lost.

More effective collection efforts also should reduce the number of debts that become delinquent and uncollectible in future years. We have estimated that with a sustained high
priority, high intensity effort, including the needed resources, legislative actions and administrative initiatives, as much as $6.7 billion in delinquent debt can be collected in future years that would not be collected if these actions do not occur.

At this time, I would like to comment on some specific issues which are addressed by the bill.

Use of Social Security Numbers

Section 4 of Senate bill 1249 would provide that applicants for Federal monies which may result in an indebtedness to the Government must furnish their social security numbers. We know from our collection efforts and previous audits that not having a debtor's Social Security number often impedes efforts to positively identify and locate a debtor, thereby resulting in the termination of collection efforts. We fully support this provision.

Screening of Potential Debtors

Section 7(a) of Senate bill 1249 would provide for IRS disclosure of certain outstanding tax liabilities of federal loan applicants. We support the intent of this provision and are making no recommendations for language revision.

Debtor Identify Information

Section 7(b) of Senate bill 1249 would amend Section 6103(m)(2) of the Internal Revenue Code. Section 6103(m)(2) now authorizes Federal agencies to obtain debtor address information from the IRS but greatly limits an agency's use of that information since it cannot be redisclosed. It appears to us that the language of Senate bill 1249 would permit disclosure for use by officers, employees or agents of a Federal agency
to locate the debtor for collection purposes, but it is not clear that this language would permit use of an address furnished by IRS for the purpose specifically authorized by section 3 of the bill—that of reporting delinquent debt information to commercial credit bureaus. Further, lack of specific redisclosure authority may preclude use of the address for the purposes of further locator action or obtaining a credit report. In our view, agencies should have access to the same collection alternatives, without regard to whether an address was furnished by IRS.

We strongly favor removal of these restrictions. We believe these restrictions prevent Federal agencies from fully carrying out their collection responsibilities and any possible invasion of taxpayer privacy which might result from the redisclosure of an IRS mailing address is minimal. Consequently, we believe that addresses furnished to Federal agencies for debt collection purposes should lose their identity as tax return information. Enclosure 1 to this statement provides suggested language for an amendment to this section.

**Determination of the Rate of Interest for IRS Debts**

Section 8 of the bill would raise the rate of interest on delinquent taxes to 100 percent of the prime rate and provide for adjustment to the rate annually. Current law provides for a rate based on 90 percent of the prime rate and adjustment every 2 years.
In a report to the Congress in October 1980, we pointed out that the rate charged under current law is generally lower than the rate available in commercial money markets—thus discouraging prompt payment. We recommended that the rate be determined semi-annually based on the Government's cost of financing and administering unpaid taxes.

Thus, we support this provision in Senate bill 1249 because it would substantially accomplish the intent of our earlier recommendation—that is, provide for use of a rate that is more closely tied to the commercial money market. We would also be willing to support a provision for more frequent adjustment of the rate, in line with our prior recommendation and with the provision in section 10 of the bill for more frequent adjustment of the rate on other types of debts.

Offset of Federal Tax Refunds

In addition to the items already in the bill, we would like to see it amended to include a provision for offset of delinquent debts against Federal tax refunds due to debtors.

Federal tax refunds are routinely made to many individuals who have not paid debts owed the Government. In March 1979, we reported to the Congress that of a sample of 613 terminated debts totaling $431,000, up to $153,000, or 36 percent, could have been collected over a 2-year period by reducing the debtors' tax refunds. We recommended that, on a test basis, delinquent nontax receivables be collected by reducing future income
tax refunds due the debtors. Such offset would be made only after all other agency collection efforts fail and after procedures to protect the debtor's rights to due process had been instituted. To protect the debtor's rights to due process the agency referring a debt for offset would be required to

--establish the debts validity by giving the debtor ample opportunity to dispute the Government's claim,
--notify the debtor that the receivable was being transferred to IRS for collection,
--give the debtor an opportunity to request a hearing on the offset, and
--notify the debtor when the debt was collected by offset.

IRS expressed reservations about the desirability and practicality of such a program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws as well as the potential negative effect on the taxpayer withholding system. A proposal in the fiscal 1980 IRS appropriations bill to fund 30 positions for such a test was not adopted.

Several members of Congress, however, were interested in pursuing legislation on this point, and we have continued to develop related information. In response to a request from Senator Sasser, as Chairman of the Legislative Appropriations Subcommittee, we issued a report last July that
pointed out that in 1979 alone, the State of Oregon was able to collect by offset from tax refunds over $2.4 million in delinquent debts that most likely would have been lost to the State. The State spent only about $200,000 to collect this amount, while at the same time establishing strict controls to ensure that debtor's rights to due process are protected and that tax refunds are not arbitrarily offset. In testimony before the Senate Governmental Affairs Committee on April 23, 1981, the Director of Oregon's Department of Taxation reported that collections for 1980 were $3.7 million at a cost of less than $300,000. We understand that Oregon has experienced no adverse effect on its withholding system.

In supporting this type of offset we wish to emphasize that the necessary safeguards to protect debtors against arbitrary offset actions can and must be instituted, and the offset procedures should be thoroughly tested prior to full implementation.

We share the IRS concern that its expertise and resources for administering tax laws not be adversely affected; however, we do not believe these concerns override the need to provide Federal agencies with all essential tools and resources for the collection of growing volumes of delinquent debts. Since the vast majority of citizens pay their debts to the Government, we believe they would be supportive of this offset program.

Essentially, we favor legislation requiring IRS to offset nontax debts on the basis of interagency agreements worked out between IRS and the Federal agencies wishing to refer
debts for offset, with the Attorney General having a consultation role in the development of such agreements. This would clearly mandate IRS to follow through with an offset program to the extent appropriate procedures could be worked out. The interagency agreement would provide a mechanism for resolving due process and other procedural issues. We anticipate that the Attorney General could contribute to resolving differences should the referring agency and IRS be unable to agree on procedures. Finally, we believe that this legislative approach would lend itself to gradual implementation. The Congress might express an intent that IRS work out an agreement with one agency and test that first, rather than attempting to work out a series of agreements at the outset.

Enclosure II to this statement provides suggested language for the amendment.

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In conclusion, there is great need to strengthen Federal collection programs. Some improvement can be achieved through increased attention to the problem, better management and additional collection resources, but we strongly believe that legislative action is needed to remove impediments to efficient and effective Federal collection efforts. Giving agency managers access to information that is available within the Federal sector and to the collection tools used by the private sector would enable them to greatly improve their performance.
The provisions of Senate bill 1249 that this subcommittee is considering, along with the changes that we are proposing, will significantly impact on the overall effectiveness of the bill. We urge the subcommittee's support of these legislative proposals.

This concludes my statement. We will be happy to respond to any questions that you or other members of the subcommittee may have.
PROPOSED AMENDMENT TO 26 U.S.C. § 6103(m)
TO PERMIT REDISCLOSURE OF MAILING ADDRESSES

Section 6103(m)(2) of the Internal Revenue Code of 1954, is amended to read as follows:

"(2) Upon written request, the Secretary may disclose the mailing address of a taxpayer to officers and employees of an agency personally and directly engaged in carrying out collection activities relating to such taxpayer in accordance with the Federal Claims Collection Act of 1966 or other statutory authority. Any mailing address disclosed in accordance with the preceding sentence shall no longer be considered 'return information' as defined in subsection (b)(2) of this section."

Section 6103(m)(2) of the Internal Revenue Code of 1954, is as amended (new language underlined; deleted language bracketed):

"(2) Upon written request, the Secretary may disclose the mailing address of a taxpayer to officers and employees of an agency personally and directly engaged in [and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) pertaining to the] carrying out collection [or compromise of a Federal claim against such taxpayer] activities relating to such taxpayer in accordance with [the provisions of section (3) of] the Federal Claims Collection Act of 1966 or other statutory authority. Any mailing address disclosed in accordance with the preceding sentence shall no longer be considered 'return information' as defined in subsection (b)(2) of this section."
PROPOSED AMENDMENT TO 26 U.S.C. § 6402 TO AUTHORIZE IRS. TO OFFSET GENERAL GOVERNMENT DEBTS AGAINST INCOME TAX REFUNDS

Section 6402 of the Internal Revenue Code of 1954 is amended as follows:

(1) By amending section (a) to read:

"(a) GENERAL RULE. In the case of any overpayment, the Secretary or his delegate, within the applicable period of limitations, may credit the amount of such overpayment, including any interest allowed thereon, against any liability in respect of an internal revenue tax or, in accordance with subsection (c), against any liability in respect of any other debt owed the Federal government, on the part of the person who made the overpayment and shall refund any balance to such person."

Subsection § 6402(a) as amended (new language underlined):

"(a) GENERAL RULE. In the case of any overpayment, the Secretary or his delegate, within the applicable period of limitations, may credit the amount of such overpayment, including any interest allowed thereon, against any liability in respect of an internal revenue tax or, in accordance with subsection (c), against any liability in respect of any other debt owed the Federal government, on the part of the person who made the overpayment and shall refund any balance to such person."

(2) By adding the following new subsection (c):

"(c) OFFSET OF GENERAL GOVERNMENT DEBTS. The Secretary or his delegate shall, in consultation with the Attorney General, enter into an agreement with the head of an agency responsible for collection of the general Government debts referred to in subsection (a) establishing procedures for the referral and offset of such debts."