

THE PROGRESS REPORT

Ban Private Tax Collecting

By Fred E. Foldvary

Much of what government does is better done with private enterprise, but tax collection is not one of those. Government should collect its own taxes. As stated by Llewellyn H. Rockwell, Jr. in [Government Contractors versus Real Business](#), "It is not privatization to contract out the collection of taxes."

"Tax farming," the use of private agents to collect taxes, is an ancient practice. In the U.S.A., Congress in 1872 authorized the Bureau of Internal Revenue to employ private agents to discover and collect unpaid taxes, after the Bureau had been doing so on a small scale without such authorization. Since the collectors kept a percentage of the taxes paid, their incentive was to maximize collections. One of the major collectors padded the accounts with dubious claims, which were accepted by the Treasury Department. The collector went after cases that the BIR was already processing. Even worse, the BIR assisted the private contractor in collecting the taxes! Congress investigated this in 1874 and concluded that this private outsourcing of tax collection served no useful purpose.

Unfortunately, government officials don't learn from history. Now there is a [new authorization](#) for private federal tax collection. Its advocates argue that such outsourcing would increase tax revenues from taxpayers who would pay up when contacted by an aggressive collection agency. Even if they would get a few billion dollars of tax revenue, do we really want private collection agencies to harass us day and night with letters and telephone calls demanding that we pay them taxes allegedly owed?

The U.S. Department of the Treasury's "Financial Management Service" has a [Debt Management Services](#) bureau which contracts with private collection agencies for delinquent tax debt collection. The agency may use [administrative wage garnishment](#) to take the alleged tax debt. The employer siphons some of the wages of the employee to the account of the agent to whom the debt is owed.

During the 1990s the IRS used private collectors to locate and contact taxpayers, but not to collect the taxes. The American Jobs Creation Act of 2004 specifically authorizes the IRS to use private agencies to collect tax debts. According to the [Federal Daily](#), a news publication for federal employees, "A provision in the 2005 Transportation-Treasury appropriations bill that would have prevented the IRS from using any funds to contract with private debt collectors to collect tax debts was dropped from the bill."

Furthermore, "The National Treasury Employees Union (NTEU) has been fighting against tax debt privatization, saying it is dangerous to give private taxpayer information to private sector companies. NTEU President Colleen M. Kelley called the removal of the provision from the 2005 Omnibus Appropriations bill 'a step backward for consumer privacy' and 'a waste of taxpayer money.' Kelley said NTEU will monitor the IRS' effort to use private debt collectors, who will be paid a commission on the debt they collect."

The NTEU is correct. The private collection of tax debt creates perverse incentives, especially as the collecting agency keeps a percentage of the taxes paid. Private enterprise is supposed to operate privately! Private enterprise means voluntary enterprise, with willing buyers and sellers. Private firms may properly help a private creditor collect a debt voluntarily agreed to by the debtor. But private tax debt collection authorizes a private agent to help the government use force against a coerced private person.

As the NTEU states, private debt collectors have access to private taxpayer information. Now that identity theft is becoming an ever greater problem, do we want private firms to have such access, including social security numbers and financial account data?

This tax-collection perversion is an outcome of a tax system that is fundamentally immoral and damaging to the economy and to social virtue. As stated well by Henry George, the valiant 19th-century American economist of the latter 1800s, taxes on labor not only take what is rightfully the property of the self-owned worker, and not only reduce production and employment, but they are a tax on truth and virtue, since a tax on income relies on self-disclosure by the taxpayer. Payers lose and cheaters win.

The morally proper sources of public revenue are voluntary user fees, compensation payments for damage such as pollution, and the tapping of site values created by nature and community. If a polluter fails to pay compensation for damages caused, he should be sued and if guilty, his property should be taken for payment. There is no need to contract such a tort to a private collector.