

**Statement of Commissioner Richard L. Gregg
Financial Management Service – U.S. Department of the Treasury
Before the Permanent Subcommittee on Investigations
Senate Committee on Governmental Affairs
February 12, 2004
Collecting Federal Tax Debts Owed by Department of Defense Contractors**

Mr. Chairman, Senator Levin, and Members of the Subcommittee:

Thank you for inviting me to discuss the role of the Financial Management Service (FMS) in collecting unpaid federal taxes that are owed by Department of Defense (DOD) contractors. Treasury appreciates your focusing attention on government financial management issues.

FMS is the Treasury bureau charged with broad financial management responsibilities – including disbursing payments, collecting revenue, and maintaining the government’s accounts. I welcome the opportunity today to acquaint the Committee with FMS’ fourth business line – the collection of delinquent debts owed to the government, both non-tax and tax.

The Debt Collection Improvement Act of 1996 is the principal law under which FMS collects non-tax debts owed to federal agencies. Our collections are accomplished through two programs – the Treasury Offset Program (TOP) and the Cross-Servicing Program. TOP is our largest collection program and is directly linked to payment disbursements. Through TOP, FMS reduces the amounts of individuals’ or businesses’ federal payments disbursed by Treasury and other agencies to satisfy delinquent debts. Types of payments include benefit payments paid on behalf of the Social Security

Administration, Office of Personnel Management (OPM) retirement payments, federal income tax refund payments, and payments to businesses (vendor payments) for goods and services provided to the federal government. A reduction, or “offset”, occurs if the name and taxpayer identifying number of a debtor included in the TOP database is matched against the name and taxpayer identifying number of a federal payment recipient. The TOP debtor information is supplied by the agencies to which the debts are owed. Under the Cross-Servicing Program, delinquent debts that are referred to FMS by federal agencies are collected using a variety of means. This includes offsetting payments through TOP, sending demand letters to debtors, garnishing wages administratively, and contracting for the services of private collection agencies.

The recent General Accounting Office report notes that FMS also has a key role in the collection of federal tax debts. In partnership with FMS, the Internal Revenue Service (IRS) collects unpaid federal income taxes through the continuous levy of certain federal payments disbursed by FMS. Vendor, federal employee salary, OPM retirement, and Social Security benefit payments are among those that are levied continuously at a rate of up to 15 percent until a debt is satisfied. This is accomplished through an automated process using the TOP system. If there is a match between IRS tax debts and FMS payment records, IRS initiates a process whereby the debtor is given a minimum of 30 days to make payment arrangements, appeal the proposed levy action, or apply for a hardship determination. The levy of a payment occurs only after IRS completes its due-process notifications and directs FMS to levy future payments. The continuous levy program is authorized under the Taxpayer Relief Act of 1997.

I spoke earlier of the link between TOP and payment disbursements. While Treasury is the primary disbursing agency (85 percent or nearly one billion payments annually with an associated dollar value of more than \$1.5 trillion) – other agencies, including DOD and the U.S. Postal Service, have payment disbursement authority, either by statute or by delegation. These agencies, which disburse payments such as salary and vendor, began matching their payments against FMS' TOP debtor database in 2002. Individuals or businesses receiving these non-Treasury disbursed payments may also have their payments levied if they owe tax debts, and would be afforded the same due process as those receiving a Treasury disbursed payment. Routinely, we work with our partner agencies on debt collection issues by providing information and making recommendations for enhancing collections. As an example, we have been working with DOD and IRS for some time on ways that are tailored to their specific needs to improve collections. In the case of DOD, the existing program is designed in such a way that their contractors may either have their payments offset if they owe non-tax debts or levied if they owe tax debts. At present, payments disbursed through two of DOD's contract pay systems are being matched against TOP data for both offset and levy purposes. I have been advised that, in the coming months, DOD expects to begin matching vendor payments it disburses through its remaining systems. For our part, FMS is working closely with DOD and we are well prepared to assume the additional workload.

Mr. Chairman, Treasury views debt collection as an important financial management tool. Moreover, collecting money owed to the government is in close alignment with one

of the government-wide initiatives under the President's Management Agenda – improved financial performance. Along these lines, you may be interested to know that the President's 2005 budget includes proposals to further improve the federal government's collection of delinquent debts. One of these proposals would increase the continuous levy on federal vendor payments from the current 15 percent to 100 percent. Unlike many federal payments such as salary, retirement, and benefit payments, vendor payments are not recurring payments and thus present fewer opportunities for collection. This levy increase would not affect the administrative processes already in place that give the debtor 30 days to make payment arrangements, appeal the levy action, or apply for a hardship determination.

We believe that devoting resources to debt collection is both wise and of enormous benefit to agencies in managing their budget accounts and producing accurate financial statements. As you can see in the chart attached to my statement, FMS' debt programs have resulted in the collection of more than \$18 billion since 1997. Our success can be attributed, in large part, to having the expertise, infrastructure and cooperative working relations required to collect the millions of outstanding debts. At the same time, we recognize that there are always opportunities to improve and refine our programs. For example, to help maximize the potential of the levy program, we are actively engaged with IRS in examining the feasibility of making two significant improvements. First, we are discussing ways to increase the number of tax debts in TOP that can be actively collected following the completion of IRS due process notifications. Under this approach, IRS may consider ways to provide due process to delinquent taxpayers before,

not after, the tax debts are transmitted to TOP. Presently, payments to DOD contractors, many of which are one-time payments, have already been disbursed by the time the due process is completed. Modifying the due process timing would ensure that the payments being disbursed to DOD contractors who are identified as delinquent tax debtors can be levied immediately. We welcome the opportunity to work with DOD and the IRS to devise procedures that address this issue. Second, we are exploring with IRS ways to improve the accuracy of the information pertaining to taxpayer identification numbers (TINs), names, and addresses contained in DOD's central contractor registration database. IRS advises, however, that there may be legal impediments under current law concerning the circumstances under which TIN matching may be used by the IRS, the information the IRS may disclose as a result of TIN matching, and to whom the information may be disclosed. If these important issues can be addressed, we would anticipate increased matches of delinquent tax debts with vendor payments to those same debtors. Increased matches would likely result in increased levy collections through TOP.

Once more, I appreciate the opportunity to discuss FMS' work in the debt collection arena. I would be happy to answer any questions.

Debt Collection Performance Summary

Collections through Treasury Offset Program	Collections in Fiscal Year 2003	Collections Since 1997
Tax Refunds - Child Support	\$1.42 billion	\$9.3 billion
Tax Refunds - Non-Tax Debts	\$1.02 billion	\$7.2 billion
Tax Refunds - State Income Tax	\$152 million	\$383 million
Administrative Offsets of Other Payments (SSA, OPM, vendor, salary)	\$88.3 million	\$247 million
Tax Levy	\$89.2 million	\$185.7 million
Office of Personnel Management Annuity	\$6.1 million	\$18.7 million
Social Security Administration Benefits	\$74.5 million	\$133.3 million
Federal Salaries	\$1.6 million	\$3.2 million
Vendor Payments	\$6.4 million	\$29.6 million
DOD Vendor Payments	\$.68 million	\$.9 million
Advanced Refund Credit Payments		\$465 million
Child Tax Credit Payments	\$207 million	\$207 million
Total for TOP	\$2.99 billion	\$17.98 billion
Collections through Cross-Servicing		
	\$108 Million	\$316 million
TOTAL COLLECTIONS	\$3.1 billion	\$18.3 billion