

S. 1249--The Debt Collection Act of 1981

Background

The Debt Collection Act of 1981 (introduced by Senators Percy, Armstrong, Boren, Chafee, Danforth, Grassley, Heinz, Packwood, Roth, Wallop, and several others) was reported, with amendments, by the Senate Committee on Governmental Affairs on July 17, 1981. The bill, which contains several provisions within the jurisdiction of the Finance Committee, deals with the collection of debts by the Federal Government. The bill was referred to the Finance Committee for consideration of the provisions under its jurisdiction, and those provisions were the subject of a hearing before the Committee's Subcommittee on Oversight of the Internal Revenue Service on July 20, 1981. (A more detailed description of present law and the provisions of S. 1249 are contained in the Joint Committee hearing pamphlet, JCS-34-81, dated July 17, 1981.)

The provisions of the bill which are under the jurisdiction of the Finance Committee would: (1) require applicants for Federal loans or financial assistance to provide their social security numbers with their applications; (2) allow the Internal Revenue Service to disclose to other Federal agencies whether a Federal loan applicant has any outstanding, unpaid tax liabilities; (3) allow the IRS to disclose individuals' mailing addresses to agents (private debt collectors) of Federal agencies for purposes of debt collection; and (4) provide that the interest rate payable on overpayments and deficiencies of tax be equal to 100 percent of the prime rate (the prime rate for this purpose would be the average of the prime rate for each of the 12 months ending with the month of September).

Present Law and Explanation of Provisions of the Bill
Within the Finance Committee's Jurisdiction

1. Use of social security numbers

Under present law, Federal loan applicants are not required to furnish their social security numbers when applying for loans or assistance.

Under the bill, Federal departments and agencies would require each individual who applies for credit, financial assistance, or any payment that may result in an indebtedness to the United States or any Federal agency to furnish his social security number. The number could be used only for verifying the applicant's identity.

2. Disclosure of information by the IRS for purposes of screening potential debtors

Present law does not permit the IRS to disclose to other Federal agencies whether applicants for Federal loans have any outstanding tax liabilities.

Under the bill, the IRS would be permitted to disclose to another Federal agency whether a Federal loan applicant has any outstanding tax or other liability under the Internal Revenue Code. Information concerning any liabilities in dispute could not be disclosed.

3. Disclosure of debtor identity information

Under present law, the IRS may disclose taxpayers' mailing addresses to officers and employees of Federal agencies for their use in collecting Federal debts. However, those addresses generally may not be disclosed to the agents of those Federal agencies. Unauthorized disclosure of tax returns or return information is punishable by a fine of up to \$5,000 or imprisonment of up to 5 years, or both. Furthermore, wrongful disclosure may give rise to a civil action for damages.

Under the bill, the IRS would be permitted to disclose mailing addresses of taxpayers to agents (for example, private debt collectors), as well as to officers and employees, of other Federal agencies for their use in locating taxpayers for the purpose of collecting or compromising Federal claims against taxpayers.

4. Interest rate on tax refunds and deficiencies

Under present law, as modified by the Economic Recovery Tax Act of 1981, the interest rate applicable to tax refunds and deficiencies is 100 percent of the prime rate for September of each year, and is effective on February 1 of the immediately succeeding year. This interest rate is to be adjusted annually, if the "adjusted prime rate charged by banks" during September, when rounded to the nearest full percent, is at least a full percentage point more or less than the rate then in effect. */ (Under the Act, this change will thus be effective February 1, 1982.) Beginning in 1983, changes in the interest rate will be effective on January 1, rather than on February 1, of the year immediately succeeding that in which the rate is established. (Prior law provided for an interest rate equal to 90 percent of prime, which could be adjusted no more frequently than every 23 months.)

*/ The adjusted prime rate is the "average predominant prime rate" quoted by commercial banks to large businesses, as determined by the Board of Governors of the Federal Reserve System (Code sec. 6621).

Under the bill, the interest rate on tax refunds and deficiencies would be the average of the prime rate for each of the 12 months ending with the month of September. This rate would be adjusted annually, if such rate is one percentage point above or below the prevailing rate. Any rate changes would become effective on February 1 of the succeeding year. (Note: As indicated above under the description of present law, the Economic Recovery Tax Act of 1981 changed the method and timing of setting the interest rate on tax refunds and deficiencies.)

5. Effective date of tax-related provisions

The above tax-related provisions of the bill would be effective upon the date of enactment.

