



Robert W. Wood

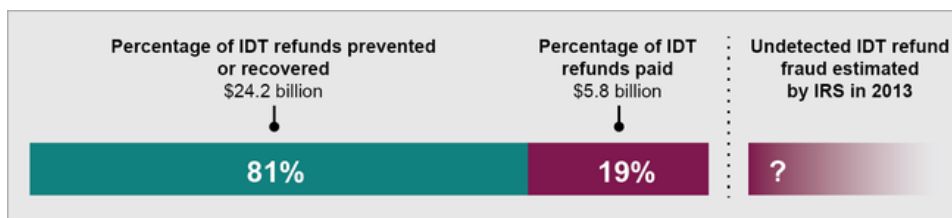
THE TAX LAWYER

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IRS Paid \$5.8 Billion In Fraudulent Refunds, Identity Theft Efforts Need Work

From 2011 through October 2014, the IRS has stopped 19 million suspicious tax returns and protected more than \$63 billion in fraudulent refunds. That's good, but some of the other figures are less so. Are your dates, numbers and passwords safe? It's become a near obsession, with good reason. This tax filing season started with new and alarming incidences of [identity theft](#).

And right on cue, the Government Accountability Office has released a new [report](#). Even though it is based on past numbers, it is revealing. The IRS is wracked by budget cuts, and has all the usual tax season issues of seasonal employees and technical problems. This year, it is made worse by additional burdens of [implementing Obamacare](#), coupled with a sharp uptick in identity fraud filing problems. It's not a pretty picture, and the report says change is needed.



Source: GAO analysis of IRS data. | GAO-15-119

The [report](#) was issued by the Government Accountability Office, which notes that the IRS is trying hard to centralize its efforts to authenticate taxpayers. On the good side, the IRS estimates it prevented \$24.2 billion in fraudulent identity theft refunds in 2013. Still, the IRS actually paid out

\$5.8 billion in fraudulent refunds that it realized were fraudulent only later. Also, there may be fraudulent refunds not included in these numbers. The IRS may never know just how many dollars of fraudulent refunds it has paid.

Classically, 'identity theft refund fraud' occurs when an identity thief uses a legitimate taxpayer's identifying information. The thief files a fraudulent tax return and claims a refund. The IRS wants to combat identity theft-related tax fraud, but the GAO says the IRS lacks a good estimate of the costs, benefits and risks. A lot of the GAO's critique has to do with assumptions and uncertainties.

GAO says the IRS hasn't assessed the level of uncertainty in its numbers. The culprits, say the IRS, are its resource constraints as well as methodological challenges. Yet the GAO report says this could matter—a lot. Making different assumptions could affect identity theft tax fraud estimates by billions of dollars. The GAO recommends that the IRS improve its fraud estimates and document its underlying analysis. The IRS has agreed.

Meanwhile, the IRS suggests protecting yourself:

- Don't carry your Social Security card or any documents that include your SSN or Individual Taxpayer Identification Number (ITIN);
- Don't give a business your SSN or ITIN just because they ask. Give it only when required;
- Protect your financial information;
- Check your credit report every 12 months;
- Review your Social Security Administration earnings statement annually;
- Secure personal information in your home;
- Protect your personal computers by using firewalls and anti-spam/virus software, updating security patches and changing passwords for Internet accounts; and
- Don't give personal information over the phone, through the mail or on the Internet unless you have initiated the contact or you are sure you know who you are dealing with.

Be on guard if you receive a notice from the IRS or learn from your tax professional that:

- More than one tax return was filed for you;
- You owe additional tax, have a refund offset or have had collection actions taken against you for a year you did not file a tax return;
- IRS records indicate you received more wages than you actually earned; or
- Your state or federal benefits were reduced or cancelled because the agency received information reporting an income change.

Victims of tax-related identity theft should:

- File a report with your local police;
- File a complaint with the Federal Trade Commission (FTC) or the FTC Identity Theft hotline;
- Contact one of the three major credit bureaus (Equifax, Experian, or TransUnion) to place a “fraud alert” on your account; and
- Close any accounts that have been tampered with or opened fraudulently.

If your SSN has been compromised and you know or suspect you may be a victim of tax-related identity theft:

- Respond immediately to any IRS notice and call the number provided;
- Complete IRS Form 14039, Identity Theft Affidavit. Use a fillable form at IRS’s website, print, then mail or fax according to instructions;
- Continue to pay your taxes and file your tax return, even if you must do so by paper; and
- If you previously contacted the IRS and did not have a resolution, contact the Identity Protection Specialized Unit.

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