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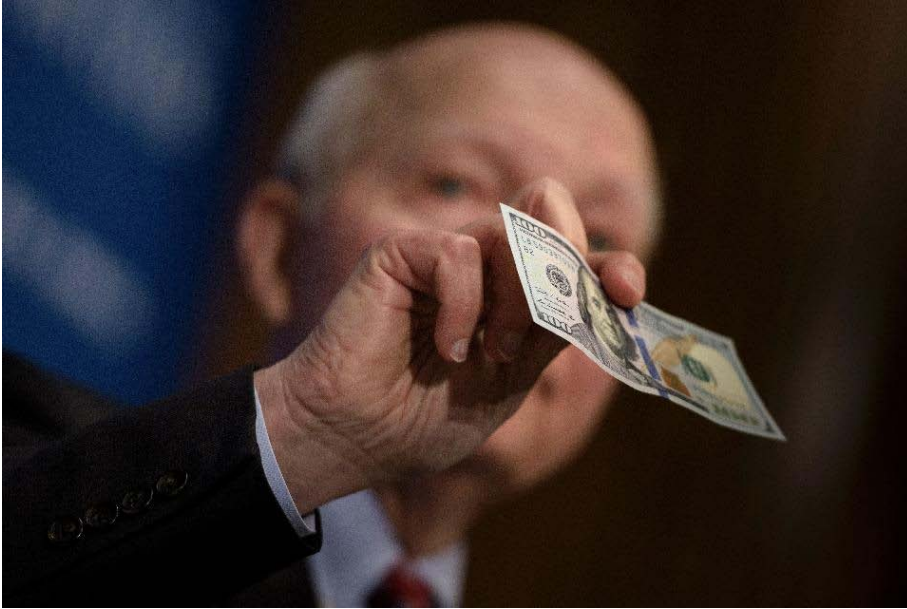
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Startling Report Of IRS Tax Refund Frauds -- Including Inside Jobs

The Treasury Department has an Inspector General for Tax Administration (TIGTA), a watchdog post that tracks the IRS and tax system. It has [released a report](#) on how the IRS did during the tax filing season from January 1 to mid-April of 2016. There is no question that the IRS has had big challenges. And this year's filing season was complicated by many tax laws that were passed unexpectedly at the end of 2015. Many of these laws were retroactive to the beginning of 2015, so they had to be included in tax filing considerations.

Some of the IRS statistics are pretty impressive, too. Until you get to the part about how the IRS detects inside jobs from AWOL employees. Plainly, the IRS was processing millions of returns. However, some of the fraud statistics are pretty staggering, and not all of them are going in the right direction. Although it is clear that the IRS is trying to stem the tide, it is one of near tidal wave proportions. The IRS continues to expand its efforts to detect tax refund fraud. As of March 5, 2016, the report says, the IRS had identified 42,148 tax returns with \$227 million claimed in fraudulent refunds.



IRS Commissioner John Koskinen holds up a \$100 bill while explaining the efficiency of the IRS during a luncheon at the National Press Club March 24, 2016 in Washington, DC. (Photo credit: BRENDAN SMIALOWSKI/AFP/Getty Images)

What's more, the IRS *prevented* the issuance of \$180.6 million (79.6%) in fraudulent refunds. The IRS also identified 20,224 potentially fraudulent tax returns filed by prisoners. As of February 29, 2016, the IRS had identified and confirmed 31,578 fraudulent tax returns. The IRS prevented the issuance of \$193.8 million in fraudulent tax refunds as a result of its identity-theft filters. These are positive accomplishments, to be sure. And the IRS is trying to identify fraudulent refund claims *before* they are accepted into the processing system.

This kind of advance warning system enabled the IRS to identify approximately 35,000 fraudulent e-filed tax returns and 741 paper tax returns as of February 29, 2016. The IRS identified and confirmed 31,578 fraudulent tax returns involving identity theft as of February 29, 2016, and identified 20,224 prisoner tax returns for screening as of March 5, 2016.

The IRS also continues to expand filters the IRS uses to detect identity theft refund fraud. The filters increased from 11 in 2012 to 183 filters in 2016. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayers' identities. As of December 31, 2015, the IRS reported that it had identified and confirmed more than one million fraudulent tax returns and *prevented* the issuance of nearly \$6.8 billion in fraudulent tax refunds as a result of the identity theft filters.

In another process, some tax returns identified as suspect are held from processing until the IRS can verify the taxpayer's identity. As of December 31, 2015, the IRS reported that it identified 835,183 tax returns claiming approximately \$4.3 billion in potentially fraudulent tax refunds. The IRS is also limiting to three the number of direct deposit refunds that can be sent to a single bank account. The IRS converts subsequent direct deposit refund requests to a specific account to a paper refund check, and mails the check to the taxpayer's address of record.

However, not all tax refund fraud and identity theft comes from outside the IRS. In fact, Timothy Camus, Deputy Inspector General for Investigations, [testified before the Ways and Means Committee](#) that there is an insider threat posed by some IRS employees. They may be able to use their official positions and access to IRS information for their own ends. One of the most significant recent cases involved an IRS employee who had access to IRS data and who stole the IRS information of hundreds of taxpayers. Then, the IRS employee used the stolen information to try to obtain between \$550,000 and \$1.5 million in fraudulent refunds.

The employee succeeded for a time. In fact, the culprit was able to steal over \$438,000 in fraudulent refunds. Mr. Camus says that the IRS has modernized its systems over the last several years. However, it has not built in adequate audit trails so an IRS employee's unauthorized access to taxpayer information can be detected. That's a problem. Mr. Camus testified that the IRS's pace of progress is not acceptable. He said that on one line of attack, the IRS estimates that it will have this vulnerability addressed between FY 2021 and FY 2027. That seems like a long wait.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.