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Department of Treasury Reviews Tax Identity Theft

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As we embrace change, unanticipated consequences often emerge. For example, as more Americans prepare their own tax returns using online tax preparation services or have their tax returns filed electronically by tax professionals, the number of tax identity thefts has accelerated. According to Debra Holland, Internal Revenue Service Commissioner of the Wage and Investment Division, "identity theft remains one of the most significant and pervasive threats confronting the United States tax system and the taxpaying public it serves."

On March 20, 2015, the U.S. Treasury Department Inspector General for Tax Administration released a report titled "Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds." According to the report, the number of tax identity theft cases increased from affecting approximately 270,000 taxpayers in 2010 to 2.4 million in 2013.

Tax return fraud occurs when an individual uses another person's name and social security number to file a fraudulent tax return and "steal" their tax refund. The thieves generally file the tax return early in the tax filing season to beat the taxpayer in filing. Since the IRS is under pressure to issue refund checks quickly, payments sometimes go to the individual fraudulently filing the return when it is filed before the legitimate taxpayer files their return.

The fraudster files the return using the taxpayer's name and address, social security number, date of birth and substitutes fictitious wage and withholding information. After the fictitious return is filed by the fraudster, a refund check is issued. When the real taxpayer later attempts to file his or her tax return, it is rejected by the IRS since the tax return is identified as a duplicate filing with the same social security number as a previously filed tax return. At that point, the taxpayer's refund is withheld by the IRS until they can determine the true owner of the social security number.

The problem has become so prevalent that the IRS had to create tax Form 14039 Identity Theft Affidavit which is filed by the taxpayer along with a "paper" tax return once identity theft occurs. After the taxpayer files their correct return along with the Identity Theft Affidavit, it takes a long period of time for the IRS to resolve the problem and for the taxpayer to receive their refund. IRS employees are instructed to inform taxpayers that it typically takes up to 180 days to resolve identity theft cases. According to the Treasury Report, the period of time to resolve a case averages 312 days while the IRS has documentation supporting resolution in the 228 to 298 day range; however, there is disagreement between the IRS and Treasury Department as to how long it actually takes to resolve the fraud. The IRS stated that the period decreased to 120 days (4 months) for cases received for tax year 2013.

The IRS continues to explore options for reducing refund fraud. For the 2015 filing season, they continued to use the Identity Protection Personal Identification Number pilot project where taxpayers are issued a unique personal identification number (or PIN) to help protect them from identity theft.

As cybercrime and identity theft seem to be "growth industries", taxpayers are becoming more vigilant about protecting their personal information while organizations such as the IRS are developing processes to secure data integrity.

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