

Federal and State Government Identity Theft and Protection Initiatives



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**Identity theft:
It is not a new problem**

The most misused SSN of all time ...

- Happened more than 70 years ago
- Involved Social Security cards “issued” by Woolworth



- At peak, nearly 5,800 people were using this SSN
- More than 40,000 reported this as their own SSN
- As late as 1977, 12 people were still using the SSN

A persistent threat to American taxpayers

- Identity theft: number one consumer complaint reported to FTC
- Incidents related to government benefits
 - most common, more complex and require more time and money to detect and resolve.
- Over the past few years, the IRS has seen an increase in refund fraud schemes in general and those involving identity theft in particular

How can identity theft affect a taxpayer's taxes?

- Scenario 1: refund-related crime
 - Identity thief uses stolen SSN to file forged tax return and obtain refund early in the filing season.
- Scenario 2: employment-related crime
 - Identity thief uses a stolen SSN to obtain employment.

IRS response

- Identity theft is a top priority for the IRS. We understand this is a frustrating situation for victims.
- While identity thieves steal the information from sources outside the tax system, the IRS is sometimes the first to inform an individual that identity theft has occurred.
- We are committed to continuing to improve our identity theft protection programs.

Prevent, detect, resolve

“The IRS is aggressively pursuing those who steal others' identities in order to file false returns.”

“...The IRS has a comprehensive identity theft strategy comprised of a two-pronged effort, focusing both on fraud prevention and victim assistance.”

Steven Miller, Deputy Commissioner

IRS Services and Enforcement

Senate Committee on Finance

Subcommittee on Fiscal Responsibility and Economic Growth on Identity Theft

March 20, 2012

Combating tax-related identity theft

- Goal: prevent identity theft and detect refund fraud *before* it occurs and assist taxpayers who are victims
- Actions: Implemented enhanced fraud protection processes for the 2012 filing season
- Developed a comprehensive identity theft strategy focused on:
 - Detection and prevention
 - Protection
 - Victim assistance

2012 filing season enhancements

- Developed filters to stop first-time perpetrators
- Marked decedent SSNs as a locking mechanism to prevent future misuse by identity thieves
- Developed proactive Error Resolution Code to identify and stop fraudulent returns when it appears decedent SSNs are being misused
- Enhanced functionality of the Identity Protection PIN and expanded population to receive IP PIN

IRS detection efforts

- Placing identity theft indicators on taxpayer accounts to track and manage identity theft incidents
- Using business filters to analyze returns filed on identity theft victim accounts to ensure legitimate returns are accepted and false returns rejected
- Identifying and investigating refund fraud

What do identity theft indicators do?

- *Prevent* victims from facing the same problems every year
- *Identify and track* tax-related identity theft problems
- *Distinguish* legitimate tax returns from fraudulent returns
- *Measure* the problem, monitor victims' accounts and develop processes to resolve problems

What else do identity theft indicators do?

- They reflect different types and risks of identity theft
 - Refund-related identity theft
 - Employment-related identity theft
 - Accounts with no filing requirement
 - Increased risk due to a lost item such as a wallet

What do business filters do?

- *Identify* possible identity theft
- *Ensure* only legitimate returns are processed
- *Flag* questionable returns for manual review to validate legitimacy
- *Reject* fraudulent returns

IRS identity protection efforts

- Notifying taxpayers when identity theft has affected their tax accounts
- Issuing victims Identity Protection Personal Identification Numbers, or IP PINs

Notifying identity theft victims

IRS issues a notification letter to a victim when an identity theft indicator is placed on the victim's account

Identity Protection PIN

- IP PIN is a six-digit number assigned to taxpayers who:
 - Were identified as identity theft victims
 - Submitted required documentation
 - Had their account issues resolved

What does the IP PIN do?

- Allows legitimate return to bypass identity theft filters
- Prevents processing of fraudulent returns
- Allows taxpayers to avoid delays in their federal tax return processing

Effect on tax administration

If an IP PIN is issued to a taxpayer, it must be used by the taxpayer when filing their federal income tax return or return will reject, potentially causing delays in processing

Key IP PIN information

- The IP PIN is specific to the tax year
- A new IP PIN issued every year
- The IP PIN should not be confused with the electronic signature 'self-select' PIN

What happens if the IP PIN is required but the taxpayer does not input it?

- Electronic return will be rejected
- Taxpayer can request a replacement IP PIN
- Return may be resubmitted with IP PIN
- If without an IP PIN, paper return must be filed

IP PIN scenarios

- IP PIN issued to both taxpayers filing 'married filing jointly':
 - Use only the IP PIN issued to taxpayer whose TIN is listed first
- Request extension and/or installment agreement
 - Taxpayer must file paper request for extension and/or installment agreement

Victim assistance efforts

- Speed up case resolution
- Provide more training for employees who assist victims of identity theft
- Step up outreach and education so taxpayers can prevent and resolve tax-related identity theft issues quickly

Tax-related identity theft: commitment to assist victims

“At the IRS, we understand the victims’ frustrations and are committed to working with them to mitigate the consequences of identity theft. This means identifying identity theft issues affecting the tax filing process and getting the victims the tax refunds to which they are entitled as soon as possible.”

Douglas H. Shulman

Commissioner, IRS

House Committee on Oversight and Government Reform

June 2, 2011

Identity Protection Specialized Unit

The IPSU is the central point of contact for taxpayers who are reporting their identity as stolen

- Toll-free number: 800-908-4490
Monday - Friday, 7 a.m. - 7 p.m. local time

Taxpayers can:

- Self-report they are victims before their tax accounts are affected.

Employee training

- Updated training for telephone representatives to ensure they maintain proper level of sensitivity when dealing with identity theft victims
- Developed training for employees who are not telephone assistors but interact with taxpayers or otherwise work identity theft cases

Taxpayer outreach

- Launched new section on IRS.gov dedicated to identity theft matters
- Heightened awareness of identity protection through filing season messages
- Conducted outreach to educate return preparers about the IP PIN and identity theft
- Worked closely with software developers on inclusion of the IP PIN

**Identity theft:
A challenge for the IRS and
States**

IRS/State Initiatives

- November 2011 IRS/FTA/Delaware Department of Revenue meeting
- PGLD Director's January 2012 FTA appearance in California
- Attendance at states' Suspicious Filer Exchange Program
- Partner with IRS-CI
- IRS/Delaware MOU

IRS/Delaware MOU

- Presents a united compliance front to taxpayers, increases investigative coverage, and leverages federal and state resources
- Is now going through review/approval process
 - Establishes reciprocal information sharing opportunities
 - Establishes cooperative compliance efforts
- Specifically addresses identity theft, false/fraudulent refund claims, tax fraud and IRS-CI cases they will not work
- Expanded to California and New York

Identity theft resources

- Go to IRS.gov, scroll to the bottom of page and click “Identity Theft” under “Gather and Protect Info” tab
- IRS works closely with other organizations:
 - Federal Trade Commission
 - OnGuard Online
 - Identity Theft Resource Center

The IRS is committed to fighting identity theft

- Fighting identity theft will be an ongoing battle for the IRS and one where we cannot afford to let up
- The identity theft landscape is constantly changing, as identity thieves continue to create new ways of stealing personal information and using it for their gain

QUESTIONS

