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TAXES AND IDENTITY THEFT

Status of IRS Initiatives to Help Victimized Taxpayers

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-11-674T, testimony before the Subcommittee on Fiscal Responsibility and Economic Growth, Committee on Finance, U.S. Senate

Why GAO Did This Study

Identity theft is a serious and growing problem in the United States. Taxpayers are harmed when identity thieves file fraudulent tax documents using stolen names and Social Security numbers. In 2010 alone, the Internal Revenue Service (IRS) identified over 245,000 identity theft incidents that affected the tax system. The hundreds of thousands of taxpayers with tax problems caused by identity theft represent a small percentage of the expected 140 million individual returns filed, but for those affected, the problems can be quite serious.

GAO was asked to describe, among other things, (1) when IRS detects identity theft based refund and employment fraud, (2) the steps IRS has taken to resolve, detect, and prevent innocent taxpayers' identity theft related problems, and (3) constraints that hinder IRS's ability to address these issues.

GAO's testimony is based on its previous work on identity theft. GAO updated its analysis by examining data on identity theft cases and interviewing IRS officials.

GAO makes no new recommendations but reports on IRS's efforts to address GAO's earlier recommendation that IRS develop performance measures and collect data suitable for assessing the effectiveness of its identity theft initiatives. IRS agreed with and implemented GAO's earlier recommendation.

View GAO-11-674T or key components.
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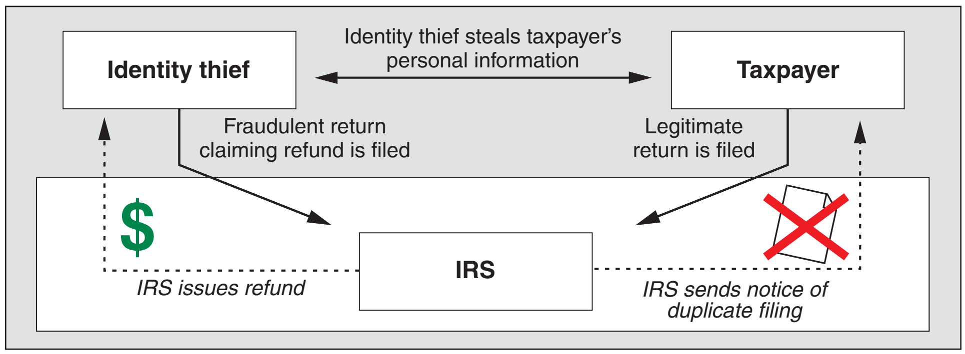
What GAO Found

Identity theft harms innocent taxpayers through employment and refund fraud. In refund fraud, an identity thief uses a taxpayer's name and Social Security Number (SSN) to file for a tax refund, which IRS discovers after the legitimate taxpayer files.

Notional Example of Refund Fraud



Source: GAO.

In employment fraud, an identity thief uses a taxpayer's name and SSN to obtain a job. When the thief's employer reports income to IRS, the taxpayer appears to have unreported income on his or her return, leading to enforcement action.

IRS has taken multiple steps to resolve, detect, and prevent employment and refund fraud:

Resolve—IRS marks taxpayer accounts to alert its personnel of a taxpayer's identity theft. The purpose is to expedite resolution of existing problems and alert personnel to potential future account problems.

Detect—IRS screens tax returns filed in the names of known refund and employment fraud victims.

Prevent—IRS provides taxpayers with information to increase their awareness of identity theft, including tips for safeguarding personal information. IRS has also started providing identity theft victims with a personal identification number to help identify legitimate returns.

IRS's ability to address identity theft issues is constrained by

- privacy laws that limit IRS's ability to share identity theft information with other agencies;
- the timing of fraud detection—more than a year may have passed since the original fraud occurred;
- the resources necessary to pursue the large volume of potential criminal refund and employment fraud cases; and
- the burden that stricter screening would likely cause taxpayers and employers since more legitimate returns would fail such screening.