



Treasury Inspector General for Tax Administration Office of Audit

PROCEDURES NEED TO BE DEVELOPED FOR COLLECTION ISSUES ASSOCIATED WITH INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS

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Highlights

Highlights of Report Number: 2010-40-040 to the Internal Revenue Service Deputy Commissioner for Operations Support, the Commissioner for the Small Business/Self-Employed Division, and the Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Many tax returns are filed by individuals who have used another person's Social Security Number or another person's name and Social Security Number to work, but file Federal tax returns using their own names and assigned Individual Taxpayer Identification Numbers (ITIN). When collection actions are taken on the account of the legitimate holder of the Social Security Number, tax complications can occur for both the legitimate holder of the Social Security Number used by others to work and the individual who used another person's Social Security Number to work. Without collection procedures in place, taxpayers cannot be assured that the correct actions are being taken to address their issues.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the Internal Revenue Service (IRS) has procedures to effectively handle collection issues related to ITINs. This audit was conducted due to concerns raised about the lack of guidance available to resolve levy issues associated with ITINs and individuals who work using another person's identity. Individuals using another person's Social Security Number to work were having their wages attached by levies associated with the account of the legitimate holder of the Social Security Number.

WHAT TIGTA FOUND

There are no guidelines that address what an IRS employee should do when an individual who used another person's Social Security Number to work contacts the IRS to have a wage levy released. Guidelines do not provide instructions for notifying the taxpayer, whose Social Security Number is being used, of potential identity theft related to levies attached to the

wages of the individual using his or her Social Security Number to work.

The IRS has not updated its guidelines to include collection issues related to identity theft and ITINs. The IRS has no procedures for employees to initiate a process for notifying the taxpayer whose Social Security Number has been stolen. Income matching and collection issues associated with ITINs present many challenges to tax administration. This prevents the IRS from notifying the legitimate holder of the Social Security Number who may be the victim of identity theft.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS update procedures and guidelines to ensure all collection issues are considered and all required actions are taken to resolve the issues. It should establish a process to notify a taxpayer when there is evidence that the taxpayer's identity has been compromised. Also, it should develop a cross-referencing process to match ITIN tax returns to related reporting tax returns and develop a process to capture data to determine potential identity theft victims.

The IRS generally agreed with the recommendations. It stated it has begun steps to update its internal guidelines. The IRS plans to explore the feasibility of expanding the use of identity theft indicators but disagreed with the assertion that it does not have procedures to notify taxpayers when there is clear evidence of identity theft. The IRS has already begun developing a process to match ITIN returns to their related reporting tax returns. The IRS also plans to explore the feasibility of a process to more broadly capture data.

The IRS stated that all functions have procedures in place to mark accounts when taxpayers report they are victims of identity theft and provide standard documentation. It also stated it has a process in place to resolve account issues for taxpayers who have been victims of identity theft. However, as TIGTA reported, internal guidelines for Taxpayer Assistance Center employees instruct them not to put an identity theft indicator on the taxpayer account since the ITIN taxpayer (borrower) who came into the Taxpayer Assistance Center is not the identity theft victim. Employees are also not instructed to forward the case to the Identity Theft function so that it can place an identity theft indicator on the account. Therefore, there is no procedure in place to resolve the identity theft victim's account or contact the victim when the identity theft victim did not report the problem.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040040fr.pdf>.

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