



*Substantial Changes Are Needed to the
Individual Taxpayer Identification Number
Program to Detect Fraudulent Applications*

July 16, 2012

Reference Number: 2012-42-081

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information

2(f) = Risk Circumvention of Agency Regulation or Statute

3(d) = Other Identifying Information of an Individual or Individuals

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HIGHLIGHTS

SUBSTANTIAL CHANGES ARE NEEDED TO THE INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER PROGRAM TO DETECT FRAUDULENT APPLICATIONS

Highlights

Final Report issued on July 16, 2012

Highlights of Reference Number: 2012-42-081 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

In Calendar Year 1996, the IRS created the Individual Taxpayer Identification Number (ITIN) so that individuals who are not eligible to obtain Social Security Numbers could obtain an identification number for tax purposes. However, IRS management has not established adequate internal controls to detect and prevent the assignment of an ITIN to individuals submitting questionable applications. A lack of adequate controls over the processing of ITIN applications can result in the improper assignment of ITINs to individuals who have not substantiated their identity or foreign status, which can result in fraudulent tax returns. Controls are important because of the volume of returns processed. In Processing Year 2011, the IRS processed more than 2.9 million ITIN tax returns resulting in tax refunds of \$6.8 billion.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA received IRS employee complaints referred from members of Congress alleging that IRS management responsible for overseeing the ITIN operation was encouraging employees to assign ITINs to applicants when the ITIN application was fraudulent. The objective of our review was to assess the efficiency and effectiveness of the IRS's process to identify questionable ITIN applications.

WHAT TIGTA FOUND

TIGTA substantiated many of the allegations set forth in the IRS employees' complaints. The

complaints alleged that IRS management is not concerned with addressing questionable applications and is interested only in the volume of applications that can be processed, regardless of whether they are fraudulent.

The audit found that the ITIN application review and verification process is so deficient that there is no assurance that ITINs are not being assigned to individuals submitting questionable applications. Because of lax documentation requirements to obtain an ITIN, tax fraud can go undetected. Management also eliminated successful processes used to identify questionable ITIN application fraud patterns and schemes.

The IRS also allows Certifying Acceptance Agents to review and verify the identity of individuals applying for an ITIN. This designation enabled some individuals to commit ITIN application fraud because these individuals do not have to send documentation supporting the application to the IRS.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop detailed procedures and deliver adequate training to identify questionable documents, expand the quality review process to include emphasis on whether employees are accurately identifying fraudulent documents, revise the criteria for identifying questionable applications, establish a process to evaluate questionable applications, and develop a business process to include analyzing the current system to identify trends and schemes. In addition, the IRS should require only original documents or documents certified by the issuing agency in support of an ITIN application, discontinue the Certifying Acceptance Agent designation, and ***2(f)*****
*****2(f)*****
)*****2(f)*****.

The IRS agreed with seven of nine recommendations and plans to take corrective actions that include implementing interim guidelines for supporting documents. IRS management indicated it would consider the other two recommendations during the IRS's review of the ITIN Program.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 16, 2012

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications (Audit # 201140036)

This report presents the results of our review to assess the efficiency and effectiveness of the Internal Revenue Service's (IRS) process to identify questionable Individual Taxpayer Identification Number applications. The audit was initiated because the Treasury Inspector General for Tax Administration received two IRS employee complaints forwarded to us by a U.S. Representative and a U.S. Senator, both alleging that IRS management overseeing the Individual Taxpayer Identification Number operation was encouraging employees to assign identification numbers to applicants when the Form W-7, *Application for IRS Individual Taxpayer Identification Number*, is questionable. This audit was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Augusta R. Cook, Acting Assistant Inspector General for Audit (Returns Processing and Account Services), at (770) 617-6434.



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Abbreviations

CY	Calendar Year
IRS	Internal Revenue Service
IRSN	Internal Revenue Service Number
ITIN	Individual Taxpayer Identification Number
SSA	Social Security Administration
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
U.S.	United States



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Background

We initiated this audit based on information forwarded to us by a U.S. Representative and a U.S. Senator. The information forwarded were complaints by two Internal Revenue Service (IRS) employees alleging that IRS management was requiring employees to assign Individual Taxpayer Identification Numbers (ITIN) even when the applications¹ were fraudulent. Synopses of the employees' allegations include the following:

- IRS management is not concerned with addressing fraudulent applications in the ITIN Operations Department because of the job security that the large inventory of applications to process provides. Management is interested only in the volume of applications that can be processed, regardless of whether they are fraudulent.
- IRS management has indicated that no function of the IRS, including Criminal Investigation and the Accounts Management Taxpayer Assurance Program, is interested in dealing with ITIN application fraud.² In the meantime, there is a potential that erroneous tax refunds are going to nonqualifying individuals, allowing them to defraud the Federal Government of billions of dollars.
- Fraud can result from lax requirements for documentation submitted with an ITIN application to prove identity and foreign status. Unlike the Social Security Administration (SSA), which requires an individual to submit "original" documents to obtain a Social Security Number (SSN), the IRS accepts notarized copies of documents for ITINs. In addition, the IRS does not question the validity or authenticity of notary stamps because it is difficult to stay up-to-date on State laws governing notaries. ITIN Operations Department employees are not trained on what factors constitute a real document versus a fake one. Further, the IRS accepts copies of these documents.
- Accepting copies of required documentation has led to the creation of fictitious identities in the IRS's ITIN Real-Time System,³ making it difficult if not impossible to later determine if the specific individual assigned an ITIN is or ever was a real person.

¹ Form W-7, *Application for IRS Individual Taxpayer Identification Number*. See Appendix IV of this report for an example of the Form W-7.

² The Accounts Management Taxpayer Assurance Program is responsible for identifying fraudulent tax returns and stopping the release of the related refunds.

³ The Real-Time System is a web-based application used by ITIN tax examiners to process and record applicant submissions. Tax examiners review all applications and attached documents, then input the information into the Real-Time System.



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- The ITIN operation is unable to verify the applicants' existence. IRS employees do not see the applicant as they review identifying information and photographs submitted.⁴ Further, documents are not verified with third parties.

Establishment of the ITIN

The law requires everyone who is employed in the United States to have an SSN that is valid for employment. The SSN is a unique nine-digit identification number used for taxpayer identification, income reporting, and record-keeping purposes. Any person required to file a tax return is required to include an identifying number, referred to as a Taxpayer Identification Number. For the majority of filers, this is the individual's SSN.

Prior to Calendar Year (CY) 1996, tax returns filed by alien individuals⁵ who were not eligible for SSNs were assigned IRS temporary numbers, known as Internal Revenue Service Numbers (IRSN), to process their tax returns. Unlike an SSN, the IRSN was associated with the tax return and not the individual filing the tax return. Subsequent tax returns filed by the same individual were then assigned different IRSNs for processing purposes. Consequently, the same individual would have different IRSNs assigned to different tax returns. The IRS determined that it could not identify individuals efficiently and reliably with this system. In CY 1996, the IRS created the ITIN to provide Taxpayer Identification Numbers, when needed for tax purposes, to individuals who do not have and are not eligible to obtain an SSN. Only individuals who have valid tax return filing requirements or are filing tax returns to claim a refund of over-withheld tax are eligible to receive ITINs.

An ITIN is issued regardless of an individual's immigration status. However, individuals assigned an ITIN should either be a resident not authorized to work in the United States or a nonresident. Nonresident aliens must file a tax return only if they are engaged in a trade or business in the United States or if they have any other U.S. sources of income on which the tax was not fully paid by the amount of tax withheld at the source. Nonresident aliens file using a Form 1040NR, *U.S. Nonresident Alien Income Tax Return*.

The process to obtain ITINs

To obtain an ITIN, an alien individual, their spouse, or qualifying dependent(s) must complete Form W-7 and send it to the IRS Submission Processing Center in Austin, Texas, or provide it to an IRS assistant at a Taxpayer Assistance Center.⁶ The applicant may also submit the Form W-7 to an IRS authorized Acceptance Agent. The role of an Acceptance Agent is to assist applicants

⁴ Approximately 94 percent of ITIN applications are received by mail.

⁵ An alien is an individual who is not a U.S. citizen. Aliens are classified as nonresident and resident. Resident aliens are taxed on their worldwide income, the same as U.S. citizens. Nonresident aliens are taxed only on their income from sources within the United States.

⁶ An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.



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in completing the ITIN application, to review and certify that the applicant's supporting documentation is accurate, and to forward the completed form and certification to the Austin Submission Processing Center. Unlike Acceptance Agents, those individuals who are Certifying Acceptance Agents are authorized to certify whether the required documentation to support the identity and foreign status of an individual applying for an ITIN is adequate. Certifying Acceptance Agents are not required to send the supporting documentation to the IRS unless requested. All supporting documents are required to prove the applicant's identity and foreign status and must show the individual's name and support for the claim of foreign status. At least one document must show the individual's photograph. ITIN applicants are required to prove identity and foreign status and demonstrate a Federal tax reporting or filing requirement when submitting their Form W-7 application and are not issued an ITIN until those requirements are met.

Processing of ITIN applications

The IRS Submission Processing Center in Austin, Texas, is responsible for processing all ITIN applications. The mission of the ITIN Operations Department is to ensure that ITINs are issued timely to qualifying individuals and used only for tax administration purposes. Attached tax returns are sent for processing, and IRS computer systems are updated with information including the individuals' names, addresses, and identification numbers.

Tax examiners in the ITIN Operations Department:

- Review Form W-7 and supporting documentation for completeness and correctness.
- Input all required data to the ITIN Real-Time System.
- Return original supporting documents to the applicant.
- Forward the tax return associated with the application for processing.

Based on the tax examiner's review of an ITIN application and associated information, the application will be either:

- **Approved:** The IRS mails a letter with the assigned ITIN to the applicant.
- **Rejected:** The IRS mails a letter notifying the individual that the ITIN application was rejected.
- **Suspended:** The ITIN application is suspended for a procedural issue or because it has questionable information. A procedural issue is one in which the applicant did not properly complete the application or did not attach the required documentation to the application. *****2(f)*****
*****2(f)*****. These applications are flagged with orange tabs.

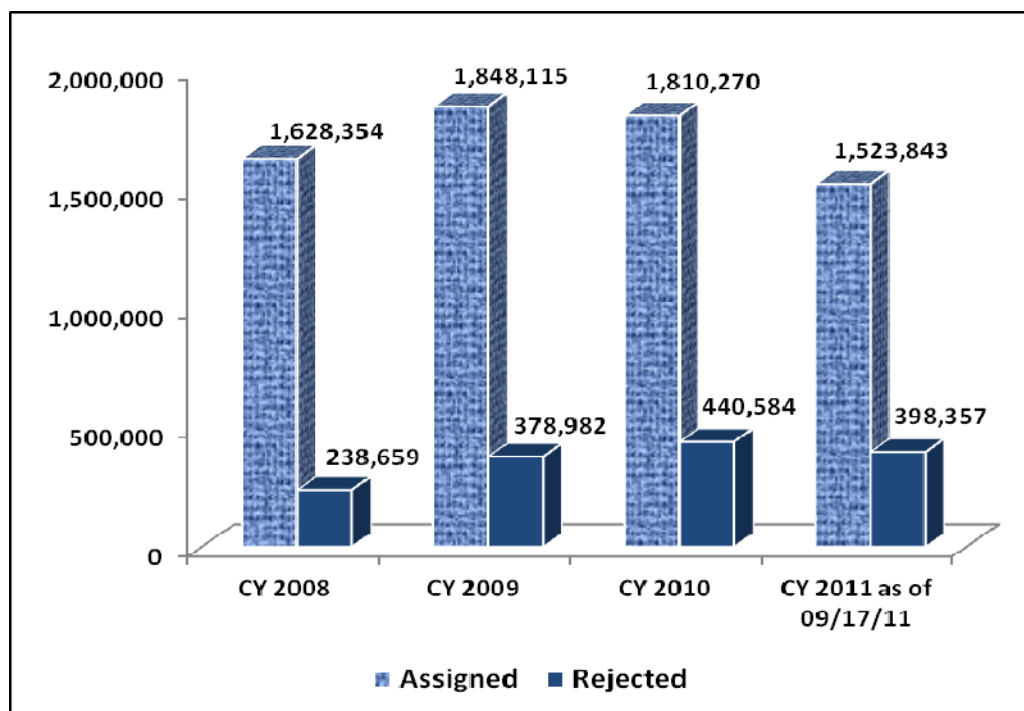


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For both questionable applications and applications with procedural errors, such as a missing signature, the case file, consisting of the ITIN application and the tax return(s), is placed in a Suspense File for correspondence with the applicant for additional information. The applicant has 45 days to respond and, if the applicant does not respond, the case file is pulled from the Suspense File and systemically rejected after 65 days. Once an applicant's response is received, the application package is pulled from the Suspense File and the documentation is reviewed by another tax examiner to determine the next action to be taken.

Whether an ITIN application is approved or rejected, the IRS processes all associated tax returns. For approved applications, the tax returns are processed using the assigned ITINs. For rejected applications, the tax returns are processed, but each is assigned an IRSN that is associated with a specific tax return. Approximately 82 percent of the ITIN applications are assigned ITINs.⁷ Figure 1 shows the production volume of ITINs assigned and rejected for Calendar Years 2008 through 2011, as of September 17, 2011.

**Figure 1: ITINs Assigned and Rejected for
Calendar Years 2008 Through 2011 (as of September 17, 2011)**



Source: ITIN Production Report, Yearly Comparative Data for CYs 2008, 2009, 2010, and 2011, as of September 17, 2011.

⁷ ITINs were assigned to 6.8 million of the 8.3 million applications over the last four years (Calendar Years 2008 through 2011, as of September 17, 2011).



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This review was performed at the Austin Submission Processing Center in Austin, Texas; the ITIN Program Office in Philadelphia, Pennsylvania; and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period July 2011 through February 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

We substantiated many of the allegations set forth in the employees' complaints about the ITIN application review and verification process. We found that the process is so deficient that there is no assurance that ITINs are not being assigned to individuals submitting questionable applications. IRS management has:

- Created an environment which discourages tax examiners responsible for reviewing ITIN applications from identifying questionable applications.
- Eliminated successful processes used to identify questionable ITIN application fraud patterns and schemes.
- Established processes and procedures that are inadequate to verify each applicant's identity and foreign status.⁸

Management has not established adequate internal controls to detect and prevent the assignment of an ITIN to individuals submitting questionable applications. The IRS accepts copies of documents used to substantiate the applicant's identity and foreign status, which prevents adequate verification. Further, it has not developed sufficient criteria for employees to use to identify questionable applications. The assignment of an ITIN based on questionable documentation enables individuals to then use this ITIN to file tax returns to commit tax refund fraud.

Some of the deficiencies we raise in our report have been brought to management's attention long ago. Some were raised in a September 2002 report issued by an IRS-initiated Task Force.⁹ However, management has failed to take sufficient action to address those deficiencies. As we have also previously reported,¹⁰ the amount of Federal funds individuals have access to once they have an ITIN assigned is substantial. For example, in Processing Year¹¹ 2011, claims by ITIN filers for the refundable credit¹² known as the Additional Child Tax Credit totaled \$4.2 billion. For the ITINs assigned in Processing Year 2011, we identified more than 481,500 (71 percent) of the tax returns associated with the ITIN application had claims for the Additional Child Tax

⁸ Documentation must support that the individual resides in a foreign country.

⁹ IRS report, *Internal Revenue Service Individual Taxpayer Identification Number (ITIN) National Task Force*, dated Sept. 11, 2002.

¹⁰ TIGTA, Ref. No. 2011-41-061, *Individuals Who Are Not Authorized to Work in the United States Were Paid \$4.2 Billion in Refundable Credits* p. 4 (July 2011).

¹¹ The calendar year in which the tax return or document is processed by the IRS.

¹² A refundable credit is not limited to the amount of an individual's tax liability and can result in a Federal tax refund that is larger than the amount of a person's Federal income tax withholding for that year.



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Credit totaling more than \$916 million. For Tax Year¹³ 2010, the Child Tax Credit could reduce an individual's taxes owed by as much as \$1,000 for each qualifying child. The Additional Child Tax Credit is given, in addition to the Child Tax Credit, to individuals who receive less than the full amount of the Child Tax Credit. The Additional Child Tax Credit is a refundable credit that can result in a Federal tax refund that is larger than the amount of a person's Federal income tax withholding for that year. Individuals can receive a refund even if no income tax was withheld or paid.

Therefore, it is essential that the IRS have adequate processes and procedures that ensure only qualified and eligible individuals are assigned an ITIN. When discussing our results with management, they agreed that our results are indicators of deficiencies that need to be evaluated.

***Management Has Created an Environment Which Discourages
Employees From Detecting Fraudulent Applications***

The environment created by management discourages tax examiners from identifying questionable ITIN applications. Although the IRS states that the mission of the ITIN Program is to ensure ITINs are issued timely to *qualifying individuals*, IRS management's primary focus is on quickly processing the applications rather than on ensuring ITINs are issued only to qualifying individuals. The lack of emphasis on identifying questionable applications is demonstrated by the processing time periods set for tax examiner review of the applications, the lack of extensive training on identifying questionable applications, and the criteria tax examiners are required to follow when identifying an application as questionable. It should be noted that even if the training was adequate, it is unrealistic to expect tax examiners to be proficient in identifying questionable applications when the IRS accepts copies¹⁴ of supporting documentation rather than requiring original documents or copies certified by the issuing governmental agency.

Tax examiners are expected to review approximately *****2(f)*****
*****2(f)*****. The average review minutes per application is based on the IRS's tracking of application review time periods for the prior four quarters, from which a baseline average time period is computed. The application review includes reviewing and verifying the application and supporting documentation and entering up to 70 lines of data into the Real-Time System. The problem with this computation is that it does not include any additional time that a diligent tax examiner would spend on evaluating and documenting identified questionable applications for referral. Representatives from the National Treasury Employees Union informed us that a single mass grievance (which involves all ITIN processing

¹³ A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

¹⁴ An intelligence officer at the Department of Homeland Security advised us that accepting copies results in the loss of all the security features of an original document. The Department of Homeland Security makes no determination based on copies of documents.



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employees) has been filed to address the fact that tax examiners in the ITIN Operations Department are not afforded the additional time needed to analyze the applications to identify and document questionable applications. Based on our review of the mass grievance, it does not specifically address the issue of the time needed to analyze ITIN applications, but addresses the general issue of how employees' work is measured and evaluated.

The IRS uses an incorrect time period for determining whether interest should be paid when processing ITIN applications

When discussing the results of our review with IRS management, we noted that a contributing factor to a tax examiner's inability to sufficiently review ITIN applications may be the time period set forth to process the application and associated tax return(s). The law requires the IRS to pay interest on any tax refund relating to a processable tax return that is not processed within 45 calendar days from the IRS's receipt of the tax return. A tax return submitted with an ITIN application is not processable until the IRS assigns an ITIN; therefore, no interest should accrue. After we brought this issue to management's attention, management determined that the 45 calendar days being used for the interest determination should not have been calculated from the date the IRS received a nonprocessable tax return, but should have been calculated from the date the ITIN was ultimately assigned. This incorrect time period determination has been in place since CY 1996 and has resulted in the incorrect payment of interest to individuals who were not entitled.

The training on identification of questionable documentation is inadequate

ITIN guidelines state that supporting documentation *must* prove foreign status and identity. However, enforcing this requirement is not possible given the IRS's current practices. Tax examiners do not receive adequate training nor do they have the tools needed to identify questionable documentation. Newly hired tax examiners receive approximately 39.5 hours of training, with only one hour spent on discussing questionable documentation. Refresher training for existing tax examiners totals 18.75 hours, with only 15 minutes spent on discussing questionable documents.

The tax examiner training material requires tax examiners to review all supporting documents with an ITIN application for authenticity. The training provides examples of what to look for when reviewing documents for authenticity. However, the examples provided relate to the formatting and typographical issues in the document. Advances in computer hardware and software provide the ability for individuals to produce high-quality counterfeit documents that, with the training guidance provided to tax examiners, would likely go undetected.

Tax examiners stated that they are concerned with the lack of adequate training and that, in their opinion, the time allotted for this training conveys that identifying fraudulent applications is not a management priority. Examples of concerns raised to the Treasury Inspector General for Tax Administration (TIGTA) by tax examiners include the following:



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- *We are provided no online or written guidance/examples to determine the validity of the many different forms of identification we see on these applications.*
- *The biggest hindrance in regards to questionable applications is our lack of training when it comes to identifying documents that are not valid. We receive no training at all in how to identify key characteristics of questionable documents.*
- *There was minimal training in identifying questionable documents. Our class spent less than one hour learning about how to identify questionable documents. The lack of emphasis on document validity sends a message to staff that it lacks importance.*

Questionable ITIN application exception criteria does not take the significance of errors into consideration

Although the tax examiner training guidance details formatting and typographical errors to look for when reviewing an application, IRS guidelines state that tax examiners must

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- *****2(f)*****
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- *****2(f)*****
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Previously, these examples of errors would have been routed to a specialized tax examiner who would have then reviewed the erroneous applications for fraud patterns and schemes. As of April 2010, this process was eliminated.

Quality reviewers will assign an error to tax examiners who incorrectly identify an application as questionable

Another concern is that the ITIN Program guidelines on *Reviewing Supporting Identification Documentation* caution tax examiners to examine documents carefully to prevent unnecessary rejections or applications held in suspense. The guidelines do not caution tax examiners to carefully review documents to identify fraudulent applications. If an ITIN application is selected for quality review, a tax examiner will not be charged with a quality error if the tax examiner fails to identify *****2(f)*** within an ITIN application. However, a tax examiner will be



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charged with an error if the quality reviewer does not agree with the ***2(f)*** identified by the tax examiner. This could negatively impact tax examiners' performance rating, the length of their employment, and whether they are called to return to duty (for seasonal tax examiners). Below are examples of tax examiners' comments relating to the quality review process.¹⁵

- *"If TEs do not identify supporting documents as questionable or fraudulent, they are not charged with a quality error. So where is the incentive to report fraud...Where is the disincentive NOT to report fraud? In fact TE's are negatively impacted with regard to their quality and efficiency ratings when they do identify and properly process fraudulent applications as they take longer and are more prone to errors."*
- *"There is no penalty if TEs fail to properly or diligently identify questionable fraudulent documents or applications."*
- *"QR has issues also in being able to determine if a document is valid, most times they want it changed to valid when it is truly fraudulent."*
- *****2(f)*****
*****2(f)*****

The main purpose of the Quality Review Program is to ensure that the information input from the ITIN application is entered correctly into the ITIN Real-Time System. The process does not evaluate whether a tax examiner correctly determined whether the ITIN application was fraudulent. Quality review guidelines do not mention that quality reviewers should assess whether the tax examiner properly evaluated the supporting documentation to ensure that the applicant was eligible for an ITIN.

*****3(d)*****

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¹⁵ In the quotes shown, "TE" is used for "tax examiner" and "QR" is used for "quality review."



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Develop more detailed procedures and deliver adequate training on reviewing documentation supporting ITIN applications to identify questionable documents. This should include coordinating with the Department of Homeland Security regarding training and processes it could provide to improve IRS tax examiner identification of questionable documentation.

Management's Response: IRS management agreed with this recommendation. The IRS will revise the Internal Revenue Manual to provide more detailed procedures. The IRS has been in contact with the Department of Homeland Security to enlist its assistance in developing a training course for IRS employees reviewing identification documentation submitted with ITIN applications. The IRS will develop the course and train a cadre of instructors who will deliver the training to the appropriate ITIN employees.

Recommendation 2: Expand the quality review process to include adequate emphasis on whether employees are accurately identifying fraudulent documents.

Management's Response: IRS management agreed with this recommendation. The quality review process will be expanded to include an adequate emphasis on the accurate identification of fraudulent documents by employees.

Recommendation 3: Revise the criteria for identifying questionable applications to include
*****2(f)*****.



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Management's Response: IRS management agreed with this recommendation. The Internal Revenue Manual was revised on September 21, 2011, instructing Tax Examiners to flag the application for secondary review if any flagrant discrepancy is identified. The secondary review is performed by the Lead Tax Examiner, who determines whether the application should be suspended for correspondence with the taxpayer for insufficient supporting documentation.

Management Has Eliminated Processes Used to Identify Questionable Individual Taxpayer Identification Number Application Patterns and Schemes

The Questionable Identification Detection Team was in place from October 2007 to April 2010. While in operation, procedures required all questionable ITIN applications with identified discrepancies to be sent to this team. The purpose of this team was to reduce misuse of ITINs by identifying patterns involving questionable applications and fraudulent tax refund claims. Despite its successes in identifying ITIN application fraud schemes and patterns, IRS management disbanded the Questionable Identification Detection Team but did not put in place similar adequate processes to identify schemes and detect trends that could indicate fraud.

IRS guidelines directed tax examiners to refer daily those ITIN applications with questionable documentation. Tax examiners did not have to identify a certain number of errors with ITIN applications to make a referral to the Questionable Identification Detection Team. Any ITIN application and tax return with similar characteristics or patterns were routed to this team for analysis. The Questionable Identification Detection Team consisted of three experienced tax examiners who, upon receipt of referred applications, would prepare case summary sheets that captured characteristics from questionable applications to identify fraud schemes. According to IRS records, this team prepared 6,395 case summary sheets during the time period it was in place.

The Questionable Identification Detection Team worked in partnership with Criminal Investigation by referring potential fraud schemes for review. Based on this work, thousands of fraudulent ITIN tax returns with erroneous tax refunds totaling more than \$43 million were identified. A presentation in October 2009 to IRS management entitled, *ITIN Summit 2009 – All Aboard the ITIN Train, Partnering to Improve ITIN*, stated that the ITIN Policy Section was dedicated to implementing policies and procedures that reduce the misuse of ITIN numbers by:

- Identifying patterns involving fraudulent tax refund claims.
- Improving the identification of questionable documentation.

Figure 2 summarizes the various ITIN application schemes identified by the Questionable Identification Detection Team and presented to management at this Summit.



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Figure 2: ITIN Refund Schemes Presented to IRS Executives

Scheme	Characteristics	Estimated Number of Tax Returns Filed	Estimated Amount of Refund Scheme
California	*****2(f)***** *****2(f)*****	16,000	\$23 million
Oregon	*****2(f)***** *****2(f)***** *****	115	\$207,000
South Carolina	*****2(f)***** *****2(f)***** *****	10,000	\$20 million
Wilmington	*****2(f)***** *****2(f)***** *****2(f)***** *****2(f)*****	126	\$290,000
Totals		26,241	\$43,497,000

Source: PowerPoint Presentation at the ITIN Summit in October 2009 – All Aboard the ITIN Train, Partnering to Improve ITIN.

However, despite its success, the former Director, Submission Processing Center, disbanded the Questionable Identification Detection Team citing concerns with resources allotted to the program and stated that other IRS programs would identify and stop fraudulent tax refunds. At the time the team was disbanded, management had been apprised of nine additional ITIN application fraud schemes similar to those in Figure 2 that were identified and raised by representatives of the team. We determined that for seven of the nine schemes, the subject of the referral was still actively submitting ITIN applications and associated tax returns in Processing Year 2011. The associated tax returns resulted in 3,565 tax refunds totaling more than \$9 million. For the other two schemes, we did not identify any subsequent activity by the subject of the referral in Processing Year 2011.

IRS management advised us that some action has been taken on each of these nine fraud schemes. For example, an IRS analyst made three separate site visits from December 3 through 14, 2010, to review the supporting documentation maintained by the Certifying Acceptance Agents.¹⁶ The site visits showed instances in which the Certifying Acceptance Agents did not maintain the proper documentation supporting the certification of the ITIN application, and the IRS analyst issued warning letters to each of the Certifying Acceptance

¹⁶ A Certifying Acceptance Agent is authorized to certify whether the required documentation to support the identity and foreign status of an individual applying for an ITIN is adequate. The Certifying Acceptance Agent reviews the applicant's documentation, completes a certificate of accuracy, and forwards the certificate and Form W-7 to the IRS for processing. The IRS will then assign the ITIN and process any associated tax returns.

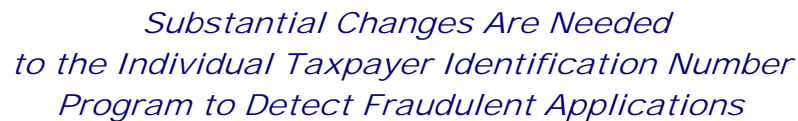


Figure 3 shows the total number of ITIN applications and questionable tax refunds issued to the addresses identified in the seven active schemes during Processing Year 2011.

Address Associated With Questionable Refund Schemes	ITIN Applications Submitted Using the Address of the Refund Schemes	Volume of Tax Refunds Using the Address of the Refund Schemes	Total Tax Refund Amount Issued to Each Address
Address Used in Observation #1	4,447	440	\$951,587
Address Used in Observation #2	17,117	2,096	\$5,795,679
Address Used in Observation #3	2,475	417	\$737,879
Address Used in Observation #4	1,425	487	\$1,062,521
Address Used in Observation #5	58	13	\$30,389
Address Used in Observation #6	10,097	39	\$158,728
Address Used in Observation #7	1,214	73	\$270,403
Totals	36,833	3,565	\$9,007,186

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Since disbanding the Questionable Identification Detection Team, the IRS has not put in place effective processes to identify fraudulent ITIN applications

To justify disbanding the Questionable Identification Detection Team, management continues to emphasize that fraudulent ITIN tax returns will be caught while the tax returns are processed. However, our analysis of ITIN tax returns processed in Calendar Year 2011 showed that approximately 23,400 (0.96 percent) of 2,433,000 tax returns were selected for review by the IRS's Accounts Management Taxpayer Assurance Program. Notwithstanding management's claim that potentially fraudulent tax returns will be caught during tax return processing, the only opportunity to identify an ITIN application based on fraudulent documentation is at the time the application is reviewed and verified. Figure 4 provides a comparison of the Questionable Identification Detection Team process to the IRS's current process.

Figure 4: Comparison of the Questionable Identification Detection Team Process Versus the Current Process

Questionable Identification Detection Team Process	Current Process
Tax examiners refer all questionable applications to the Questionable Identification Detection Team daily.	Tax examiner must identify ***2(f)**** for a questionable application.
Team logs and tracks all receipts.	Tax examiner places orange sticker on case file.
Team reviews all questionable applications within three days.	Clerk places case in the Suspense File ¹⁷ with other applications needing additional information.
Team reviews questionable applications to determine if identity is valid or invalid.	Clerk corresponds with the taxpayer and requests additional supporting documentation.
Team completes the case summary sheet for all questionable applications.	Tax examiner places case in a Referral Box for review by Criminal Investigation when ITIN tax returns *****2(f)***** *****2(f)*****
Team copies the case summary sheet and has it placed in the Suspense File.	None.
Team mails the completed case summary sheet weekly to the analyst.	None.
Team refers the invalid identification cases to the Austin Fraud Detection Center.	None.
For invalid applications where an ITIN has been assigned, Team revokes and updates the Real-Time System.	None.

Source: Internal Revenue Manual guidelines and TIGTA interviews with IRS personnel.

¹⁷ The IRS was unable to provide us with the total number of ITIN applications sent to the Suspense File for the cases in which tax examiners identified *****2(f)***** related to documentation associated with the application.



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The key difference in the two processes is that, under the new process, no one is evaluating cases sent to the Suspense File for fraud trends and schemes. However, even if they were evaluated, there is currently no organizational function within the IRS responsible for working the ITIN application fraud schemes. In addition, there were no management information reports, only a spreadsheet showing the number of ITIN tax returns placed in the Referral Box meeting Criminal Investigation criteria of *****2(f)*****.

In the IRS's *Individual Taxpayer Identification Number Fiscal Year 2011 Program Letter and Strategy*, management stated that the ITIN Policy Section's overall objective is to effect positive change within the ITIN Program through policy changes, improvement in operational procedures, and implementation of its strategies. The program letter states that these strategies include reducing the misuse of ITINs, reducing the cost to the IRS of fraudulent tax refund claims, and improving the identification of questionable documentation. Management concluded that the implementation of these changes will result in a more efficient and effective program. However, management was unable to provide information supporting that any strategic effort was or is being undertaken. In practice, management's actions appear to contradict the strategies outlined.

The ITIN Policy Section¹⁸ is responsible for:

- Working with the ITIN Operations Department to monitor the processing of the applications and tax returns to ensure that all of the work is timely and accurately completed.
- Developing, testing, and implementing new procedures to facilitate improved ITIN processing and the proper use of ITINs.
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¹⁸ The ITIN Policy Section is organizationally under the Customer Account Services function in the Wage and Investment Division.



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Management does not use ITIN application data to identify and prevent fraud

Further, our review found no indication that the IRS uses application information included in its Real-Time System to identify potential fraud schemes. Our analysis of ITIN application data contained in the IRS's Real-Time System identified indications of possible fraud. For example, we analyzed the number of times the same mailing address was used on an ITIN application. Our analysis found 154 mailing addresses were used 1,000 or more times on an ITIN application. Figure 5 provides examples of addresses used on ITIN applications in excess of 6,000 times.

Figure 5: Most Frequently Used Addresses on ITIN Applications

Mailing Addresses Used on ITIN Applications	ITINS Assigned to Individuals Using These Addresses	Acceptance Agents Submitting Applications		Individuals Submitting Applications With These Addresses
		Number Submitted Using This Address	Number of Different Acceptance Agents	
#1 Address Located in Phoenix, Arizona	15,795	15,718	13	74
#2 Address Located in Dallas, Texas	15,028	14,968	3	45
#3 Address Located in Atlanta, Georgia	12,345	11,456	13	2
#4 Address Located in Atlantic City, New Jersey	10,356	8,797	5	31
#5 Address Located in Tulsa, Oklahoma	9,909	385	8	9,522
#6 Address Located in Indianapolis, Indiana	8,714	2,466	10	459
#7 Address Located in Orange, California	8,361	6,967	5	1,288
#8 Address Located in Los Angeles, California	8,337	8,113	4	18
#9 Address Located in Columbus, Ohio	6,653	6,633	10	17
#10 Address Located in Morganton, North Carolina	6,411	6,273	10	132

Source: ITIN Real-Time System extract of ITIN applications from November 1, 2006, to October 19, 2011.



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Figure 6 provides the most frequently used addresses that were issued tax refunds used on ITIN tax returns in Processing Year 2011.

Figure 6: Most Frequently Used Addresses for ITIN Tax Refunds

Address	Total Number of Tax Refunds Issued	Total Tax Refund Amount
#1 Address Located in Atlanta, Georgia	23,994	\$46,378,040
#2 Address Located in Atlanta, Georgia	11,284	\$2,164,976
#3 Address Located in Atlanta, Georgia	3,608	\$2,691,448
#4 Address Located in Oxnard, California	2,507	\$10,395,874
#5 Address Located in Raleigh, North Carolina	2,408	\$7,284,212
#6 Address Located in Atlanta, Georgia	2,386	\$1,232,943
#7 Address Located in Phoenix, Arizona	2,047	\$5,588,608
#8 Address Located in Palm Beach Gardens, Florida	1,972	\$2,256,302
#9 Address Located in San Jose, California	1,942	\$5,091,027
#10 Address Located in Arvin, California	1,846	\$3,298,877
Totals	53,994	\$86,382,307

Source: IRS Refund File for Processing Year 2011 through Cycle 48 (November 25, 2011).

Figure 7 provides examples of the most used bank account numbers issued tax refunds on ITIN tax returns in Processing Year 2011.

Figure 7: Most Frequently Used Bank Accounts for ITIN Tax Refunds

Bank Account Number	Total Number of Tax Refunds Issued	Total Tax Refund Amount
00731XXX22	8,393	\$236,747
200005XXX4	3,912	\$186,966
100001XXX9	2,706	\$7,319,518
199372XXX2	1,608	\$4,564,264
200004XXX9	1,428	\$149,375
200004XXX3	1,332	\$391,510
630163XXX0	1,191	\$861,162
00731XXX30	1,084	\$93,065
20000XXX95	1,053	\$810,589
457020XXX8	853	\$1,814,730
Totals	23,560	\$16,427,926

Source: IRS Refund File for Processing Year 2011 through Cycle 48 (November 25, 2011).



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In addition to the previously discussed analysis we performed during the course of our review, tax examiners sent us information about what they suspected were potential ITIN application schemes for which no action has been taken by management*****2(f)*****

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Using this information, we identified that 794 ITINs were assigned to individuals at these addresses, and 326 tax returns were filed with refunds totaling approximately \$1.3 million issued to these three addresses. Figure 8 provides an analysis of the addresses that the tax examiners provided.

Figure 8: Number of Refunds and ITIN Applications Using Same Addresses

Address	Number of Tax Returns	Total Amount of Tax Refunds Issued	Number of Assigned ITINS at These Addresses
#1 Address Located in Frankford, Delaware	183	\$712,004	627
#2 Address Located in Parksley, Virginia	48	\$163,711	100
#3 Address Located in Thermal, California	95	\$402,274	67
Totals	326	\$1,277,989	794

Source: ITIN Real-Time System database extract of ITIN applications from November 1, 2006, to October 19, 2011, and IRS Refund File through Cycle 48 (November 25, 2011).

In addition, we analyzed a statistically valid sample of 150 suspended ITIN applications to determine whether multiple applicants were using the same mailing address that was listed on the suspended application. Of the 150 suspended ITIN applications, 106 applications were ultimately rejected because the individual did not respond to the IRS's subsequent requests for information. We performed analysis using the mailing address listed on these 106 rejected applications to determine whether additional applicants used these same mailing addresses. Our



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review identified 5,676¹⁹ additional applicants who used a mailing address that was used on one of the 106 rejected applications. For example, we identified 604 individuals who used the same mailing address that was listed on a rejected application; for these, 640²⁰ tax refunds were issued totaling more than \$1.5 million. Our Internet research identified this address as a single family residence located in Lincoln Park, Michigan.

Figure 9 shows the frequency of the top five mailing addresses from rejected applications that were used by additional applicants, as well as the number of tax refunds issued.

**Figure 9: Top Five Frequently Used Addresses
Previously Rejected on ITIN Applications**

Address	Number of Tax Refunds Issued by the IRS	Total Amount of Tax Refunds Issued	Number of ITIN Applications Submitted With This Address
#1 Address Located in Lincoln Park, Michigan	640	\$1,505,930	604
#2 Address Located in Taylors, South Carolina	31	\$105,822	195
#3 Address Located in Myrtle Beach, South Carolina	27	\$88,139	59
#4 Address Located in Keyport, New Jersey	22	\$49,239	34
#5 Address Located in Golden Valley, Minnesota	19	\$3,964	177
Totals	739	\$1,753,094	1,069

Source: ITIN Real-Time System database extract of ITIN applications from November 1, 2006, to October 19, 2011, and IRS Refund File through Cycle 48 (November 25, 2011).

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¹⁹ It is possible that the number of applications is higher due to IRS input variations of the same address.

²⁰ The number of tax returns submitted is more than the number of individuals because some individuals filed tax returns for multiple tax years.



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 4: Establish a process to evaluate questionable applications to identify trends and schemes for referral.

Management's Response: IRS management agreed with this recommendation. The process used to identify potential schemes will be reviewed and, with respect to the implementation of changes to the program currently under consideration, will be revised appropriately.

Recommendation 5: Develop business processes and procedures that include evaluating and analyzing information included in the Real-Time System to identify indicators of questionable ITIN applications. This process should include informational sharing with tax examiners for use in proactively identifying questionable applications during processing.

Management's Response: IRS management agreed with this recommendation. The IRS has arranged for the Modernization and Information Technology Services organization to provide regular data extracts of the Real-Time System. Processes will be developed to analyze the data and identify indicators of questionable ITIN applications.

Recommendation 6: Establish organizational lines of responsibility, processes, and procedures for detecting, referring, and working potential ITIN application fraud schemes.

Management's Response: IRS management agreed with this recommendation. In addition to the IRS's traditional process for making criminal referrals to the Criminal Investigation Division, the IRS will evaluate processes that will be used to address ITIN and related refund fraud schemes through civil enforcement programs.

Processes Are Not Adequate to Verify Each Applicant's Identity and Foreign Status

The IRS accepts notarized copies notwithstanding the fact that notaries are not in a position to authenticate documents. Further, the IRS outsources the application review and verification for many of the applications it receives. For example, for the 1,638,737 ITINs assigned between January 1 and December 31, 2011, we identified that for 432,070 (26 percent) the supporting



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documentation was certified by a Certifying Acceptance Agent. The lack of effective processes results in the assignment of ITINs to those with questionable applications and ultimately results in substantial revenue losses and improper payments.

Our review of a statistically valid sample of 150 approved applications to assess the characteristics of documentation provided in support of applications for ITINs assigned between April 12 and June 21, 2011, identified:

- 79 applications (52.7 percent) for which the applicant provided copies of required documents. With only copies of the documents, the tax examiner is unable to adequately verify these documents and confirm the identity and foreign status of the individual applying for the ITIN. For 10 (6.7 percent) of these applications, the required documentation was either not notarized as required (eight applications) or was notarized with an expired notary stamp (two applications).
- 24 applications (16 percent) for which the applicant provided original documents.
- 4 applications (2.7 percent) for which either the applicant provided no documentation or the IRS was unable to locate the sampled application.
- 43 applications (28.7 percent) for which documentation was not required to be attached because the application was completed by a Certifying Acceptance Agent (IRS procedures do not require Certifying Acceptance Agents to submit required documentation to support an ITIN application because these individuals are authorized to certify that required documentation was provided with the ITIN application).

The IRS is unable to determine the validity of notarized copies

Individuals applying for an ITIN are not required to provide original documents and/or copies of documents certified by the issuing agency (reproduction of a document or record authenticated by the issuing agency) to establish their identity and foreign status. The IRS will accept notarized copies. However, notarized copies have serious limitations and present difficulties for tax examiners required to verify these documents and confirm the identity and foreign status of the individual applying for the ITIN. Concerns about this issue were raised in an IRS ITIN Task Force report in September 2002. The Task Force recommended that all supporting required documents be one of the following:

- Original.
- Certified by the issuing agency.

The IRS did not act on the recommendation and continues to accept notarized copies of the documentation required to be provided in support of ITIN applications. Figure 10 provides a list of acceptable documentation.



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Figure 10: Acceptable Documentation for ITIN Applicants

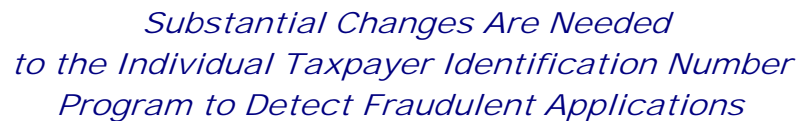
Type of Supporting Documentation	Foreign Status	Identity
Passport (the only stand-alone document) ²¹	X	X
U.S. Citizenship and Immigration Services Photo Identification	X	X
Visa issued by the U.S. Department of State	X	X
U.S. Driver's License		X
U.S. Military Identification Card		X
Foreign Driver's License		X
Foreign Military Identification Card	X	X
National Identification Card (must be current and contain name, photograph, address, date of birth, and expiration date)	X	X
U.S. State Identification Card		X
Foreign Voter's Registration Card	X	X
Birth Certificate	X ²²	X
Medical Records (valid for dependent only – under 14 years of age (under 18 years of age if student))	X	X
School Records (valid for dependent only – under 14 years of age (under 18 years of age if a student))	X	X

Source: IRS Publication 1915 (Rev. 11-2010), *Understanding Your IRS Individual Taxpayer Identification Number (ITIN)*.

The IRS's acceptance of notarized copies differs significantly from other Federal agencies. For example, original documents or copies certified by the issuing agency are required to obtain an SSN or a passport. The SSA accepts only original documents or certified documents from applicants submitting an application for an SSN and returns these documents submitted with the application. We discussed this issue with representatives from the SSA, who stated that notarized documents are not accepted because a notary does not authenticate the legitimacy of the documents or prove the identity of the individuals. Unlike an original document or a copy certified by the issuing agency, notaries are not responsible for the accuracy or legality of documents they notarize. A notary only certifies the identity of signers by witnessing the signature of the individual signing the documents. The signers are responsible for the content of the documents. Figure 11 shows a comparison of the requirements for obtaining an ITIN to other Federal Government programs.

²¹ A passport is the only stand-alone document that will prove both identity and foreign status, *i.e.*, if a passport is submitted, then the applicant does not need to submit any other supporting documentation.

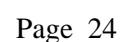
²² Birth certificate, medical records, and school records may be used to establish foreign status only if the documents are foreign.



	ITIN	SSN	U.S. Passport
U.S. Citizenship Required to Obtain	No.	No – Noncitizens authorized to work in the United States by the Department of Homeland Security can also obtain an SSN through the SSA.	Yes.
SSN Required	No – Individuals are not eligible for an ITIN if they have an SSN.	Apply for an SSN through the SSA.	Yes.
Documentation Required	Originals, certified, or notarized copies.	Originals or certified copies.	Certified birth certificate and copy of one identity document (front and back) such as driver's license.
Apply in Person Requirement	No.	No, except for individuals age 12 and older.	Yes, if applying for the first time or a minor under age 16.

The IRS, in its instructions to individuals applying for an ITIN, recommends that “original” documents not be sent to the IRS. Despite this recommendation, the IRS has established a process to control and return original documents to applicants. For example, once a tax examiner completes his or her review of an ITIN application, the tax examiner separates the original documents from the application; the original documents are placed in an envelope and are mailed back to the applicant.

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 commission is considered valid if it is current or unexpired at the
 time the document is notarized.





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IRS management is aware of the risk of notary fraud in the ITIN application process. ***

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Processing and verification of ITIN applications should be performed only by IRS employees

Despite the use of ITINs to obtain substantial Federal tax benefits and its unintended use as a Federal identification number for other purposes, the IRS allows third parties (Certifying Acceptance Agents) to review and verify the identity and foreign status of individuals applying for an ITIN. These individuals are frequently tax return preparers and, as such, have a financial interest in preparing an individual's tax return, which may run counter to the incentive to protect the Government's interest of validating the taxpayer's identity and foreign status. There is not sufficient rationale to allow these individuals to act on behalf of the Government.

Certifying Acceptance Agents enter into a written agreement with the IRS authorizing them to assist individuals not eligible for an SSN by completing an ITIN application (with required documentary evidence) and submitting it to the IRS on behalf of the applicant. The IRS determines whether an individual qualifies to become a Certifying Acceptance Agent based on the following suitability background checks:

- Review of the individual's tax filing history to confirm they are in full compliance with filing and payment responsibilities.
- A credit history check and Federal Bureau of Investigation background check unless the individual is already authorized to practice before the IRS.

Once an individual becomes a Certifying Acceptance Agent, they are authorized to certify the adequacy of required documentation used to support the identity and foreign status of an individual applying for an ITIN. Certifying Acceptance Agents are ***not required to send the supporting documentation*** to the IRS unless requested. The Certifying Acceptance Agent reviews the applicant's documentation, completes a certificate of accuracy, and forwards the certificate and Form W-7 to the IRS for processing. The IRS will then assign the ITIN and process any associated tax returns. The Certifying Acceptance Agent is required to keep copies of the documents for three years after sending the Form W-7 to the IRS. As of May 31, 2011, there were 4,760 Certifying Acceptance Agents in the United States and 266 Certifying Acceptance Agents located outside of the United States.

It should be noted that the IRS also uses the service of individuals who are Acceptance Agents, but these individuals are not certified. An Acceptance Agent is an individual who, pursuant to a written agreement with the IRS, is authorized to assist alien individuals and other foreign persons (who are ineligible to receive an SSN) in obtaining an ITIN from the IRS. The Acceptance Agent facilitates the application process by reviewing the necessary documents and forwards the



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completed Form W-7 and supporting documents to the IRS. The IRS is responsible for verifying the application and adequacy of supporting documentation.

As we previously noted, the IRS has identified individuals who use the Certifying Acceptance Agent designation to commit fraud. In one scheme, four Certifying Acceptance Agents were prosecuted for submitting fraudulent applications and filing more than 10,000 tax returns resulting in erroneous tax refunds totaling more than \$20 million. This risk could be eliminated if the IRS discontinued the Certifying Acceptance Agent designation and instead required that all documentation in support of an ITIN application be sent to the IRS for review and verification.

Prior TIGTA audits identified that IRS management information was insufficient to effectively oversee the Acceptance Agent Program

In June 2009, the TIGTA reported²³ that management information was insufficient to effectively oversee the Acceptance Agent Program. As a result, the ITIN Program Office was unable to monitor Agents or their activity and/or to measure their compliance with rules and regulations. In addition, the application screening process did not always ensure the integrity of the individuals applying for participation in the Acceptance Agent Program.

At the time of our report, the ITIN Program Office was working with IRS Criminal Investigation on several ITIN tax schemes involving Acceptance Agents. For example, Processing Year 2008 schemes being worked by Criminal Investigation involved 14,636 ITIN tax returns and \$42 million in refunds claimed. More than 1,000 (7 percent) of the 14,636 ITIN tax returns involved in schemes had ITINs issued with the assistance of Agents. These schemes involved \$3.1 million in refunds. *****1*****
*****1*****. In response to the TIGTA report, the IRS developed a compliance review process to review the documents that support the ITIN applications submitted by Certifying Acceptance Agents to reduce the risk associated with this program.

In another TIGTA report,²⁴ 87 percent (467 of 535) of the application packages sampled that were submitted by Certifying Acceptance Agents contained errors. For example, 322 application packages did not contain the required documents to issue an ITIN to the applicant.

Processes have not been adequate to address identity theft committed by ITIN applicants

Subsequent to the initiation of our review, management implemented some actions in an attempt to reduce the fraud resulting from possible identity theft. Management issued guidance on

²³ TIGTA, Ref. No. 2009-40-087, *Inadequate Management Information Has Adversely Affected the Acceptance Agent Program* (June 2009).

²⁴ TIGTA, Ref. No. 2010-40-005, *Individual Taxpayer Identification Numbers Are Being Issued Without Sufficient Supporting Documentation* (Dec. 2009).



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December 8, 2011, to ITIN Operations Department tax examiners directing them to reject ITIN applications *****2(f)*****²⁵ *****
*****2(f)*****. These newly developed procedures require tax examiners to suspend the application and correspond with the individual submitting the ITIN in an attempt to receive corrected information. If the individual does not provide the requested information, the tax return will be processed using an IRSN. These concerns regarding identity theft committed by individuals requesting an ITIN have been raised to management in previous TIGTA reviews²⁶ and by tax examiners reviewing ITIN applications, but no changes were made to the process until February 23, 2012.

This procedure still allows individuals to *****2(f)*****
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Prior to these new procedures, management directed ITIN Operations Department tax examiners to accept ITIN applications *****2(f)*****
*****2(f)*****. Identity theft involving an individual using another person's identity (name, SSN, or both) to obtain employment can potentially harm taxpayers who are victims of the identity theft. For example, employment-related identity theft can affect taxpayers when the IRS attempts to take enforcement actions for allegedly unreported income.

A March 2009 TIGTA report²⁷ found there were a number of ITIN-filed tax returns with a Form W-2 *****2(f)*****.
The audit identified a population of 1,621,846 Tax Year 2006 ITIN-filed tax returns with reported wages of more than \$39.4 billion. The TIGTA reviewed a random sample of 230 tax returns (86 electronically filed and 144 paper filed) that had a total of 363 associated Form W-2 wages totaling more than \$11.8 million. Our review of the 144 paper returns showed that 203 (91 percent) of the 224 attached Forms W-2 contained *****2(f)*****
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²⁵ The Form W-2 is used to report wages paid to employees and the taxes withheld from them.

²⁶ TIGTA, Ref. No. 2009-40-057, *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Mar. 2009); and TIGTA, Ref. No. 2011-41-061, *Individuals Who Are Not Authorized to Work in the United States Were Paid \$4.2 Billion in Refundable Credits* (July 2011).

²⁷ TIGTA, Ref. No. 2009-40-057, *Actions Are Needed to Ensure Proper Use of Individual Taxpayer Identification Numbers and to Verify or Limit Refundable Credit Claims* (Mar. 2009).



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2(f). For example, only 21 percent (20,950/100,000) of the ITINs first issued in CY 1996 were still being used as a primary ITIN on a tax return processed in Processing Year 2011. Figure 12 provides a summary of the initial 100,000 ITINs issued at the inception of the ITIN Program and the volume used as a primary ITIN on a tax return in Processing Years 2009, 2010, and 2011.

Figure 12: Number of Initial ITINs Still in Use

Processing Year	Number of Tax Returns Using an Initial ITIN	Initial ITIN Tax Returns Issued a Tax Refund	Total Refund Amounts Issued to Initial ITINs
2009	24,027	17,219	\$22,177,635
2010	22,718	16,462	\$19,653,756
2011	20,950	15,869	\$19,427,858

Source: IRS Individual Return Transaction File³¹ for Processing Years 2009, 2010, and 2011 through Cycle 50 (December 9, 2011) and Refund File for Processing Years 2009, 2010, and 2011 through Cycle 50 (December 9, 2011).

Prior to CY 1996, the IRS assigned IRSNs to individuals who were unable to obtain an SSN. Tax returns with IRSNs are considered invalid by the IRS and as such, an individual is unable to claim personal exemptions, deductions, and credits, which usually results in no tax refund. Unlike an IRSN, an ITIN provides individuals with the ability to receive substantial Federal

28

*****2(f)*****
*****2(f)*****.

²⁹ The SSA maintains a Death Master File containing records of more than 65 million deaths, giving information on each decedent such as name, SSN, date of birth, and date of death. The Death Master File is one of the Government's most effective weapons against financial fraud.

³⁰ Pub. L. No. 107-56, 115 Stat. 272 (2001).

³¹ We relied on the IRS's Individual Return Transaction File for our analysis. For all our analyses that used the Individual Return Transaction File in this report, we did not perform separate testing to identify potential duplicate tax return filings.



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funds through the tax system because filers with ITINs are allowed exemptions, deductions, and credits, including those credits that are refundable. For example, in Processing Year 2011, individuals who filed a tax return with an ITIN had average withholdings totaling \$672, yet the refunds claimed were more than triple their withholdings (\$2,126) because they included refundable credits.

ITINs are being used for other purposes outside of tax administration

Although the IRS clearly informs applicants that the ITIN is for tax administration use only, these numbers are being used for other purposes besides tax administration. One of the unintended uses of an ITIN is as a Federal identification number. Due to their commonality, driver's licenses have become the *de facto* form of identification within the country. To obtain a driver's license, an individual generally must provide an identification number, *i.e.*, SSN. The IRS's September 2002 ITIN Task Force Report stated:

Since the introduction of the ITIN, the program has evolved into much more than originally envisioned. Although the ITIN was intended solely for use as a taxpayer identifying number, it has become accepted as a federal identification number for non-tax purposes. One particularly disturbing example is the ITIN's use by illegal aliens to obtain driver's licenses. Driver's licenses provide the holders access to air and ground transportation systems for unrestricted travel in the United States and in many countries in the Western Hemisphere where it is accepted in lieu of a passport.

The IRS sent letters to the States' Departments of Motor Vehicles informing them that the ITIN should not be accepted as proof of identification. The following is an excerpt from the letter sent to the various States:

Several state government motor vehicle departments are accepting IRS-issued Individual Taxpayer Identification Numbers (ITINs) as proof of identification for state driver's licenses, prompting us to issue this reminder – ITINs are not valid for identification outside the tax system. The Internal Revenue Service issues ITINs for the sole purpose of enabling individuals who do not qualify for Social Security numbers to meet their tax filing responsibilities. Therefore, we do not subject ITIN applicants to the same rigorous document verification standards as Social Security Number or visa/passport applicants.

Use of an ITIN as an identification number increases the need for the IRS to establish adequate processes to ensure ITINs are assigned only to eligible individuals. For example, we reviewed a statistically valid sample of 150 ITINs used to file a tax return processed in Processing Year 2007 and determined through third-party research that 10.7 percent (16 of 150) had also used an ITIN for other than tax purposes. Third-party data research using the ITIN as the individual identification number found financial histories under this number. These histories included traffic violations, co-ownership of property, and automobiles either owned or registered by the individual.



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 7: Require only original documents or documents certified by the issuing agency to be provided in support of an ITIN application.

Management's Response: IRS management agreed with this recommendation. Effective immediately, the IRS is implementing interim guidelines and will require original documents or documents certified by the issuing agency to be provided in support of an ITIN application. With certain limited exceptions, these interim guidelines are being put in place while the IRS conducts a more thorough review. In addition, the IRS is reviewing the existing inventory of ITIN applications to determine whether some taxpayers who have already submitted applications should be required to furnish original documentation directly to the IRS. The IRS expects to conclude its evaluation of the effectiveness and feasibility of the interim guidelines by December 2012 and will finalize procedures accordingly.

Recommendation 8: Discontinue the Certifying Acceptance Agent designation and require that all documentation in support of an ITIN application be sent to the IRS for review and verification.

Management's Response: IRS management will consider this recommendation as the IRS conducts a broader review of the ITIN program. The Certifying Acceptance Agent Program is being reevaluated as part of this overall review. The IRS expects to conclude the evaluation of the effectiveness and feasibility of the interim guidelines by December 2012 and will make a determination on the appropriateness of the Certifying Acceptance Agent Program at that time.

Office of Audit Comment: The IRS has already begun taking steps to require that all documentation in support of an ITIN application be sent to the IRS for review and verification. On June 22, 2012, the IRS announced interim changes to strengthen its procedures for issuing ITINs from now through the end of the year. During this interim period, the IRS will issue ITINs only when applications include original documentation, such as passports and birth certificates, or certified copies of these documents from the issuing agency. The changes, which are effective immediately, are designed to strengthen and protect the integrity of the ITIN process while minimizing the impact on taxpayers.

Recommendation 9: *****2(f)*****
*****2(f)*****.

Management's Response: IRS management will consider this recommendation as the IRS evaluates the feasibility and impact of this change on the taxpayers and the IRS.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the efficiency and effectiveness of the IRS's process to identify questionable ITIN applications. The audit was conducted because the TIGTA received two congressional complaints, one from a member of the U.S. House of Representatives and another from a U.S. Senator, both alleging that IRS management overseeing the ITIN operation was encouraging employees to assign ITINs to applicants when the application Form W-7, *Application for IRS Individual Taxpayer Identification Number*, is questionable. To accomplish our objective, we:

- I. Assessed the effectiveness of ITIN application requirements in deterring questionable ITIN applications.
 - A. Identified the requirements for applying for an ITIN, including specific information to be provided.
 - B. Compared the IRS's requirements for obtaining an ITIN to other Federal Government programs and identified the weaknesses in the IRS's ITIN application process that may perpetuate the submission of questionable ITIN applications.
 1. Identified the process requirements for obtaining an SSN.
 2. Identified the process requirements for obtaining a U.S. passport.
 - C. Compared the requirements for obtaining the two official documents in Steps. I.B.1. and I.B.2. to the requirements for obtaining an ITIN.
- II. Determined if the IRS had effective processes and procedures to identify questionable ITIN applications.
 - A. Identified processes and procedures the IRS had implemented in an effort to identify questionable ITIN applications.
 1. Reviewed guidance provided to ITIN Operations Department tax examiners and identified steps tax examiners should follow to identify questionable ITIN applications.
 2. Evaluated the training ITIN Operations Department tax examiners received relating to the identification of questionable ITIN applications.
 - B. Compared and contrasted questionable identification processes and procedures used by the Questionable Identification Detection Team to the current process and assessed the impact on the effectiveness of identifying questionable applications.



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1. Determined how questionable applications were referred to the Questionable Identification Detection Team and how questionable applications are now referred for further action.
 2. Compared the information from questionable applications captured by the Questionable Identification Detection Team to the information now captured by ITIN Operations Department tax examiners.
 3. Determined whether the Questionable Identification Detection Team identified questionable applications and/or schemes from the case summary sheets, and whether the current process identified questionable applications and/or schemes.
- C. Interviewed the Department of Homeland Security and discussed its processes and procedures for identifying questionable documents for its various programs.
- III. Assessed the effectiveness of IRS processes and procedures for resolving identified questionable ITIN applications.
- A. Ascertained whether the IRS generates reports to reflect the progress of the process and accounts for the volume of questionable ITIN applications with resultant outcomes.
- B. Selected a statistically valid sample of 150 suspended ITIN applications from 121,548 applications suspended as of April 20, 2011, and determined whether multiple applicants were using the same mailing address on the suspended applications subsequently rejected. We used attribute sampling to calculate the minimum sample size n , which was rounded to 150:
- $$n = (Z^2 p (1-p)) / (A^2)$$
- Z = Confidence Level: 90 percent (expressed as 1.645 standard deviation)
- p = Expected Rate of Occurrence: 5 percent
- A = Precision Rate: ± 3 percent
- C. Selected a statistically valid sample of 150 assigned ITIN applications from the National Account Profile¹ that contained 518,022 ITINs assigned between April 12 and June 21, 2011, and determined whether the supporting identification documents were original, notarized, or certified. The TIGTA Office of Information Services extracted the National Account Profile data from the IRS mainframes and a run-to-run balancing was used, which involves documenting the records read in and written out at each step of the file processing to ensure all records were received and

¹ The National Account Profile contains IRS and SSA information for name control, date of birth, and date of death for each Taxpayer Identification Number.



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loaded. We verified the accuracy of the National Account Profile data by comparing a judgmental sample of 10 ITINs from these data to the IRS's Integrated Data Retrieval System² and also to the Real-Time System used to process ITIN applications.

We used attribute sampling to calculate the minimum sample size n , which was rounded to 150:

$$n = (Z^2 p (1-p)) / (A^2)$$

Z = Confidence Level: 90 percent (expressed as 1.645 standard deviation)

p = Expected Rate of Occurrence: 5 percent

A = Precision Rate: ± 3 percent

- D. Selected a statistically valid sample of 150 ITINs from the Individual Return Transaction File³ that contained 1,765,950 unique ITINs used to file Tax Year⁴ 2006 tax returns processed in Processing Year 2007 to ascertain through third-party research whether the ITINs were used for other than tax purposes. We used attribute sampling to calculate the minimum sample size n , which was rounded to 150:

$$n = (Z^2 p (1-p)) / (A^2)$$

Z = Confidence Level: 90 percent (expressed as 1.645 standard deviation)

p = Expected Rate of Occurrence: 5 percent

A = Precision Rate: ± 3 percent

- IV. Assessed whether IRS programs identified questionable tax returns filed by ITIN applicants during tax return processing and in post-processing compliance programs.

² The Integrated Data Retrieval System is an IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

³ The Individual Return Transaction File contains data transcribed from individual tax returns and accompanying schedules. The Individual Return Transaction File data were extracted from the IRS's mainframes and a run-to-run balancing was used. We verified the accuracy of the Individual Return Transaction File data by reviewing the IRS's Integrated Data Retrieval System for a judgmental sample of 25 individuals.

⁴ A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.



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- A. Obtained computer extracts that identified all transaction codes⁵ for ITIN applicants' tax returns processed from January 1, 2010, through May 6, 2011, from the Individual Return Transaction File and the Individual Master File Refund File⁶ and determined whether erroneous tax returns and tax refunds were identified and stopped.
 - B. Reviewed procedures, interviewed IRS management, and determined the steps performed during processing and post-processing programs to identify questionable ITIN tax returns.
 - C. Analyzed tax refunds issued and determined whether paper checks were mailed to common addresses and direct deposits transmitted to the same bank accounts to identify questionable ITIN tax refunds.
- V. Analyzed ITIN data from the Real-Time System extracted for the period November 1, 2006, to October 19, 2011, to identify questionable ITIN applications by identifying patterns and trends of ITIN applications, such as applications*****2(f)*****
*****2(f)*****
*****2(f)*****. We performed subsequent research on any questionable applications.
- A. Identified ITIN applications on the Real-Time System that appeared questionable due to indicators of questionable activity.
 - B. Researched the tax accounts of questionable ITIN applications on the IRS's tax systems and determined whether a tax refund was issued.
- VI. Assessed management's commitment to identify and resolve questionable ITIN applications.
- A. Determined the goals/measures established for the Austin Submission Processing Center and ascertained whether ITIN application processing activities contributed to the completion of those goals/measures.
 - B. Determined the goals/measures established by management for the ITIN Operations Department and ascertained whether any of the goals/measures deterred ITIN

⁵ Transaction code is a three-digit code used to identify actions being taken to an individual's account.

⁶ The Refund File captures all refunds which are sent by the IRS to the Financial Management Service for processing. The Financial Management Service is responsible for generating the actual refunds based upon the information provided by the IRS. The refunds are sent by the Financial Management Service to the taxpayers in the form of bank account direct deposits or mailed paper checks. These files capture the associated name, address, or account information for the entity receiving the refunds and are useful for identifying tax refund fraud. The Refund File data were extracted from the IRS's mainframes and a run-to-run balancing was used. We verified the accuracy of the Refund File data by reviewing the IRS's Integrated Data Retrieval System for a judgmental sample of 10 individuals.



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- Operations Department employees from identifying questionable ITIN application packages.
- C. Determined the goals/measures established by management to evaluate the ITIN Operations Department employees' performance and whether any of the goals/measures inhibited employees from identifying questionable ITIN application packages.
 - D. Evaluated whether the goals/measures established by management negatively affected the identification and resolution of questionable ITIN applications.
- VII. Assessed the effectiveness of management's oversight to ensure the efficiency and effectiveness of processes/procedures to identify and resolve questionable ITIN applications.
- A. Obtained copies of any oversight reviews performed of the ITIN Operations Department.
 - B. Interviewed the Austin Submission Processing Center analysts and determined their role in providing oversight to the ITIN Operations Department.
 - C. Interviewed the ITIN Policy Section analysts and determined their role in providing oversight to the ITIN Operations Department.
 - D. Interviewed management responsible for Program oversight to discuss the processes and procedures to identify questionable ITIN applications and the effectiveness of these processes and procedures.
- VIII. Evaluated how resources and procedures have evolved for identifying questionable ITIN applications since the ITIN Program relocated from the Philadelphia Submission Processing Center to the Austin Submission Processing Center.
- A. Identified the resources used by the Philadelphia Submission Processing Center to process ITIN applications and compared them to the resources utilized by the Austin Submission Processing Center for processing ITIN applications.
 - B. Determined the procedures that the Philadelphia Submission Processing Center employed to process ITIN applications and compared them to the procedures used by the Austin Submission Processing Center to determine differences in identifying questionable ITIN applications.
- IX. Determined whether the IRS implemented a process for employees to raise concerns regarding the efficiency and/or effectiveness of processes/procedures for identifying and resolving questionable ITIN applications.



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- A. Determined whether ITIN management instituted a process that permits employees to give suggestions or raise concerns regarding the ITIN applications, specifically questionable ones.
- B. Surveyed IRS employees and determined if they had suggestions to identify questionable Form W-7 applications.
- C. Confirmed information in the congressional complaints provided by ITIN Operations Department employees.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Internal Revenue Manual; *Standards for Internal Control in the Federal Government*; and the IRS's policies, procedures, and practices for processing Form W-7 applications. We evaluated these controls by interviewing management, examining applicable information, and reviewing samples of suspended and assigned Form W-7 applications.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Deputy Commissioner, Services and Operations, Wage and Investment Division SE:W
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Deputy Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP:D
Austin Field Director, Submission Processing, Wage and Investment Division
SE:W:CAS:SP:AU
Program Manager, ITIN Program Office, Wage and Investment Division SE:W:CAS:SP:ITIN
Chief Counsel CC
National Taxpayer Advocate TA
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Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PRA:PEI



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Appendix IV

*Form W-7, Application for IRS
Individual Taxpayer Identification Number*

Form W-7 <small>(Rev. January 2010) Department of the Treasury Internal Revenue Service</small>	Application for IRS Individual Taxpayer Identification Number <small>► See instructions. ► For use by individuals who are not U.S. citizens or permanent residents.</small>	<small>OMB No. 1545-0074</small>
An IRS individual taxpayer identification number (ITIN) is for federal tax purposes only.		
Before you begin: <ul style="list-style-type: none">• Do not submit this form if you have, or are eligible to get, a U.S. social security number (SSN).• Getting an ITIN does not change your immigration status or your right to work in the United States and does not make you eligible for the earned income credit.		
FOR IRS USE ONLY		
Reason you are submitting Form W-7. Read the instructions for the box you check. Caution: If you check box b, c, d, e, f, or g, you must file a tax return with Form W-7 unless you meet one of the exceptions (see instructions).		
<div style="display: flex; justify-content: space-between;"><div><div style="display: flex; flex-direction: column; gap: 5px;"><div><input type="checkbox"/> a Nonresident alien required to get ITIN to claim tax treaty benefit</div><div><input type="checkbox"/> b Nonresident alien filing a U.S. tax return</div><div><input type="checkbox"/> c U.S. resident alien (based on days present in the United States) filing a U.S. tax return</div><div><input type="checkbox"/> d Dependent of U.S. citizen/resident alien</div><div><input type="checkbox"/> e Spouse of U.S. citizen/resident alien</div><div><input type="checkbox"/> f Nonresident alien student, professor, or researcher filing a U.S. tax return or claiming an exception</div><div><input type="checkbox"/> g Dependent/spouse of a nonresident alien holding a U.S. visa</div><div><input type="checkbox"/> h Other (see instructions) ►</div></div><div style="flex-grow: 1; border-bottom: 1px solid black; margin-top: 5px;">Additional information for a and f: Enter treaty country ► and treaty article number ►</div></div><div style="display: flex; flex-direction: column; gap: 5px;"><div><div style="display: flex; justify-content: space-between;"><div style="width: 30%;">1a First name</div><div style="width: 30%;">Middle name</div><div style="width: 30%;">Last name</div></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="display: flex; justify-content: space-between;"><div style="width: 30%;">1b First name</div><div style="width: 30%;">Middle name</div><div style="width: 30%;">Last name</div></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div></div></div><div>Applicant's mailing address<div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div></div><div>Foreign (non-U.S.) address <small>(if different from above) (see instructions)</small><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div></div><div>Birth information<div style="display: flex; justify-content: space-between;"><div style="width: 30%;">4 Date of birth (month / day / year) / /</div><div style="width: 20%;">Country of birth</div><div style="width: 30%;">City and state or province (optional)</div><div style="width: 20%;">5 <input type="checkbox"/> Male <input type="checkbox"/> Female</div></div></div><div>Other information<div style="display: flex; justify-content: space-between;"><div style="width: 30%;">6a Country(ies) of citizenship</div><div style="width: 20%;">6b Foreign tax I.D. number (if any)</div><div style="width: 50%;">6c Type of U.S. visa (if any), number, and expiration date</div></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="display: flex; justify-content: space-between;"><div style="width: 40%;">6d Identification document(s) submitted (see instructions) <input type="checkbox"/> USCIS documentation <input type="checkbox"/> Other <small>Issued by: No.: Exp. date: / /</small></div><div style="width: 60%;">Entry date in United States / /</div></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div>6e Have you previously received a U.S. temporary taxpayer identification number (TIN) or employer identification number (EIN)? <input type="checkbox"/> No/Do not know. Skip line 6f. <input type="checkbox"/> Yes. Complete line 6f. If more than one, list on a sheet and attach to this form (see instructions).</div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div>6f Enter: TIN or EIN ► and Name under which it was issued ►</div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div>6g Name of college/university or company (see instructions) City and state Length of stay</div></div><div>Sign Here<div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="display: flex; justify-content: space-between;"><div style="width: 45%;">Signature of applicant (if delegate, see instructions)</div><div style="width: 20%;">Date (month / day / year) / /</div><div style="width: 35%;">Phone number () - -</div></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="display: flex; justify-content: space-between;"><div style="width: 45%;">Name of delegate, if applicable (type or print)</div><div style="width: 20%;">Delegate's relationship to applicant <input type="checkbox"/> Parent <input type="checkbox"/> Court-appointed guardian <input type="checkbox"/> Power of Attorney</div><div style="width: 35%;">Phone () Fax () EIN Office Code</div></div></div><div>Acceptance Agent's Use ONLY<div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div><div style="border-bottom: 1px solid black; height: 1.2em;"></div></div></div> <div style="display: flex; justify-content: space-between; font-size: small; margin-top: 10px;"><div>For Paperwork Reduction Act Notice, see page 5.</div><div>Cat. No. 10229L</div><div>Form W-7 (Rev. 1-2010)</div></div>		



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Appendix V

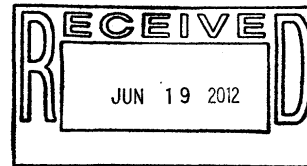
Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

JUN 18 2012



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Peggy Bogadi
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Substantial Changes Are Needed to the
Individual Taxpayer Identification Number Program to Detect
Fraudulent Applications (Audit # 201140036)

The IRS appreciates the Treasury Inspector General for Tax Administration's (TIGTA) review of the Individual Taxpayer Identification Number (ITIN) Program. The report makes a number of helpful recommendations, several of which the IRS has already implemented. It is important to recognize that the ITIN program is essential to the processing of tax returns that report tens of billions of dollars in taxable income, and billions of dollars of tax. At the same time, tax returns filed using ITINs may also claim certain tax benefits, and your report indicated several areas where our program needed to be improved to address potential compliance risk.

Earlier this year, the IRS implemented a number of changes to strengthen the program. These included heightened scrutiny and additional review of questionable applications. The IRS is also undertaking a comprehensive review of the ITIN program. While this review is underway, the IRS is instituting interim procedures, which will require applicants seeking ITINs in order to file US income tax returns to include original documentation or certified copies of these documents from the issuing agency. As part of the review, the IRS will solicit stakeholder feedback on what permanent changes are appropriate. Because most taxpayers have already filed their tax returns for this year, and ITIN applications must generally be filed with the tax return, any permanent changes will be decided and communicated before next filing season.

When presented with weaknesses in the program, IRS senior management has moved quickly to address them. We are in the process of reinforcing to our employees and managers the critical importance of the integrity of this program to ensure that our recent improvements to the program are sustained. At the same time, we are taking care to ensure that the program remains accessible so that taxpayers who are earning



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income and paying taxes continue to apply for ITINs and report their income on 1040 tax returns.

The IRS is in the process of implementing or evaluating each of TIGTA's specific recommendations. Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Pete Stipek, Director, Customer Account Services, at (404) 338-8910.

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Develop more detailed procedures and deliver adequate training on reviewing documentation supporting ITIN applications to identify questionable documents. This should include coordinating with the Department of Homeland Security regarding training and processes it could provide to improve IRS tax examiner identification of questionable documentation.

CORRECTIVE ACTION

We agree with this recommendation. We will revise Internal Revenue Manual 3.21.263, *IRS Individual Taxpayer Identification Number (ITIN) Real Time System (RTS)*, to provide more detailed procedures. We have been in contact with the Department of Homeland Security to enlist their assistance in developing a training course for IRS employees reviewing identification documentation submitted with Individual Taxpayer Identification Number (ITIN) applications. We will develop the course and train a cadre of instructors who will deliver the training to the appropriate ITIN employees.

IMPLEMENTATION DATE

December 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Expand the quality review process to include adequate emphasis on whether employees are accurately identifying fraudulent documents.

CORRECTIVE ACTION

We agree with this recommendation. The quality review process will be expanded to include an adequate emphasis on the accurate identification of fraudulent documents by employees.

IMPLEMENTATION DATE

October 15, 2012

RESPONSIBLE OFFICIAL



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RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Expand the quality review process to include adequate emphasis on whether employees are accurately identifying fraudulent documents.

CORRECTIVE ACTION

We agree with this recommendation. The quality review process will be expanded to include an adequate emphasis on the accurate identification of fraudulent documents by employees.

IMPLEMENTATION DATE

October 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3

Revise the criteria for identifying questionable applications to include *****2(f)***** **2(f)**

CORRECTIVE ACTION

Internal Revenue Manual 3.21.263.5.3.4.4 was revised on September 21, 2011, instructing Tax Examiners to flag the application for secondary review if any flagrant discrepancy is identified. The secondary review is performed by the Lead Tax Examiner, who determines whether the application should be suspended for correspondence with the taxpayer for insufficient supporting documentation.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4

Establish a process to evaluate questionable applications to identify trends and schemes for referral.

CORRECTIVE ACTION

We agree with this recommendation. The process used to identify potential schemes will be reviewed and, with respect to the implementation of changes to the program currently under consideration, will be revised appropriately.

IMPLEMENTATION DATE

October 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division



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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 5

Develop business processes and procedures that include evaluating and analyzing information included in the Real-Time System to identify indicators of questionable ITIN applications. This process should include informational sharing with tax examiners for use in proactively identifying questionable applications during processing.

CORRECTIVE ACTION

We agree with this recommendation. We have arranged for Modernization and Information Technology Services to provide regular data extracts of the Real-Time System. Processes will be developed to analyze the data and identify indicators of questionable ITIN applications.

IMPLEMENTATION DATE

October 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 6

Establish organizational lines of responsibility, processes, and procedures for detecting, referring, and working potential ITIN application fraud schemes.

CORRECTIVE ACTION

We agree with this recommendation. In addition to our traditional process for making criminal referrals to the Criminal Investigation Division, we will evaluate processes that will be used to address ITIN and related refund fraud schemes through civil enforcement programs.

IMPLEMENTATION DATE

January 15, 2013

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division



*Substantial Changes Are Needed
to the Individual Taxpayer Identification Number
Program to Detect Fraudulent Applications*

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CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 7

Require only original documents or documents certified by the issuing agency to be provided in support of an ITIN application.

CORRECTIVE ACTION

Effective immediately, the IRS is implementing interim guidelines and will require original documents or documents certified by the issuing agency to be provided in support of an ITIN application, with certain limited exceptions, these interim guidelines are being put in place while the IRS conducts a more thorough review. In addition, the IRS is reviewing the existing inventory of ITIN applications to determine whether some taxpayers who have already submitted applications should be required to furnish original documentation directly to the IRS. We expect to conclude our evaluation of the effectiveness and feasibility of the interim guidelines by December 2012, and will finalize procedures accordingly.

IMPLEMENTATION DATE

December 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 8

Discontinue the Certifying Acceptance Agent designation and require that all documentation in support of an ITIN application be sent to the IRS for review and verification.

CORRECTIVE ACTION

We will consider this recommendation as we conduct a broader review of the ITIN program. The CAA program is being reevaluated as part of this overall review. We expect to conclude our evaluation of the effectiveness and feasibility of the interim guidelines by December 2012, and will make a determination on the appropriateness of the CAA program at that time.



*Substantial Changes Are Needed
to the Individual Taxpayer Identification Number
Program to Detect Fraudulent Applications*

IMPLEMENTATION DATE

December 15, 2012

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 9

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CORRECTIVE ACTION

We will consider this recommendation as we evaluate the feasibility and impact of this change on the taxpayers and the IRS.

IMPLEMENTATION DATE

June 15, 2014

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.