



Treasury Inspector General for Tax Administration Office of Audit

DETECTION HAS IMPROVED; HOWEVER, IDENTITY THEFT CONTINUES TO RESULT IN BILLIONS OF DOLLARS IN POTENTIALLY FRAUDULENT TAX REFUNDS

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Highlights

Highlights of Report Number: 2013-40-122 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Identity theft continues to be a serious and growing problem which has a significant impact on tax administration. Undetected tax refund fraud results in significant unintended Federal outlays and erodes taxpayer confidence in the Federal tax system.

WHY TIGTA DID THE AUDIT

This review is a follow-up to a July 2012 TIGTA audit report, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (Reference No. 2012-42-080). The overall objective of this review was to determine whether the IRS has improved its programs and procedures to identify and prevent fraudulent tax refunds resulting from identity theft.

WHAT TIGTA FOUND

Our review found that expanded identity theft detection efforts are helping identify fraudulent tax returns. However, billions of dollars in potentially fraudulent refunds continue to be paid. Our analysis of Tax Year 2011 tax returns identified approximately 1.1 million undetected tax returns filed using a Social Security Number that have the same characteristics of IRS-confirmed identity theft tax returns. Potentially fraudulent tax refunds issued total approximately \$3.6 billion, which is down by \$1.6 billion compared to the \$5.2 billion TIGTA reported for Tax Year 2010.

In addition, TIGTA expanded its Tax Year 2011 analysis to include tax returns for which the primary Taxpayer Identification Number on the tax return is an Individual Taxpayer Identification Number (ITIN). TIGTA identified more than 141,000 Tax Year 2011 tax returns filed with an ITIN that have the same characteristics as IRS-confirmed identity theft tax returns involving an ITIN. Potentially fraudulent tax refunds issued for these undetected tax returns totaled approximately \$385 million.

Lastly, the IRS has still not taken actions to prevent multiple tax refunds from being deposited to the same bank account. This continues to provide identity thieves with an easy method to obtain fraudulent tax refunds.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division: 1) deactivate ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement in an effort to reduce tax filing fraud and 2) continue to analyze the characteristics of identity theft tax returns, including using the characteristics of questionable ITIN application data to expand identity theft filters.

IRS management agreed with TIGTA's recommendations. An implementation team is addressing the deactivation process for ITINs issued prior to 2013 and is developing an enterprisewide process to accomplish that objective. In addition, during the 2012 and 2013 Filing Seasons, the Taxpayer Protection Program identified opportunities for improvement to the filter processes and implemented changes that improved their performance and effectiveness. The IRS plans to continue to evaluate the feasibility and impact of changes to the Dependent Database filters and ITIN Real-Time System.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201340122fr.pdf>.

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