TAXES AND IDENTITY THEFT

Status of IRS Initiatives to Help Victimized Taxpayers

What GAO Found

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

Notional Example of Refund Fraud

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

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

Resolve—IRS marks taxpayer accounts to alert its personnel of a taxpayer’s identity theft related problems, and prevent innocent taxpayers’ identity theft related problems.

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

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

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

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