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**

![Image of refund fraud example]

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 (3) constraints that hinder IRS’s ability to address these issues.

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

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

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

View GAO-11-721T or key components.
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