
Identity theft victims can take steps to protect themselves

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In brief

Identity theft has become an increasingly widespread problem for both taxpayers and the Internal Revenue Service (IRS) as taxpayers are being targeted by identity thieves who file fraudulent income tax returns to recoup wrongly claimed sizable refunds. Identity theft occurs when a taxpayer's personal information is used without permission to commit fraud or other crimes using the victim's name, Social Security number (SSN), or other identifying information. Taxpayers may not be aware they are victims of identity theft until they receive a letter or notice from the IRS stating that more than one tax return for a particular tax year has been filed with their information or that IRS records show wages from an employer for which the taxpayer has not previously worked.

In detail

Identity theft is increasing

For the 2011 tax period, investigators for the US Department of the Treasury estimate that the IRS may have issued more than \$5 billion in refunds based on fraudulent returns filed by identity thieves. According to a recent Government Accountability Office report, Total Extent of Refund Fraud Using Stolen Identities is Unknown, "[i]dentity theft is a growing and evolving problem that imposes a financial and emotional toll on its victims. As of September 30, 2012, the IRS had identified almost 642,000 incidents of identity theft that impacted tax administration in 2012 alone, a large increase over prior years."

Identity thieves are using stolen home addresses, SSNs, and credit card information to file tax returns with fraudulent claims for refunds. Thieves can obtain identity information by hacking into a computer system or paper files at one of the many entities that use names and SSNs in their records (e.g., employers, schools, or financial institutions). Identity thieves can also trick taxpayers into revealing such information or steal the information from them. Typically, a fraudulent return is filed early in the filing season before the taxpayer files their return. Taxpayers may be unaware that this has happened until they file their return later in the filing season and discover that two returns have been filed using their SSN and other personal information.

IRS response to identity theft

IRS employees are working to prevent refund fraud, investigate identity theft-related crimes, and help taxpayers who have been victimized by identity thieves. By end of 2012, the IRS had assigned more than 3,000 employees—more than double the number from 2011—to work on identity theft-related issues. In addition, the IRS has trained 35,000 employees to work with taxpayers to recognize identity theft indicators and help taxpayers victimized by identity theft. As a result, the IRS in 2012 avoided \$20 billion (compared with \$14 billion in 2011) of attempted fraudulent refunds, including those related to identity theft.

In Fact Sheet 2013-2, released on January 25, 2013, the IRS highlighted the following additional efforts that it is taking to address identity theft:

- For 2013, there has been a significant increase in the number and quality of identity theft screening filters that can spot fraudulent tax returns before refunds are issued. The IRS now has dozens of identity theft filters in place.
- The IRS Criminal Investigation division tripled the number of identity theft investigations in 2012, leading to 900 investigations. Nearly 500 identity thieves have been indicted across the country. Several hundred more investigations have started since October 2012.
- The IRS expanded a pilot program that allows local law enforcement agencies in nine states to obtain tax return data that helps the IRS investigate and pursue identity thieves. More than 65 law-enforcement agencies are involved in this effort.
- The IRS is collaborating with more than 130 financial institutions to identify identity theft fraud schemes and block refunds from reaching the hands of identity thieves. According to the IRS, this effort has so far protected hundreds of millions of dollars.

What should taxpayers do if they believe they are at risk of identity theft?

A taxpayer who is at risk of identity theft due to lost or stolen personal information should immediately contact the IRS Identity Protection Specialized Unit at 800-908-4490 so the specialized unit can take action to secure the victim's tax account. Victims of identity theft will be asked

to complete Form 14039, IRS Identity Theft Affidavit, and follow the instructions on the back of the form. This may include submitting relevant documentation to verify identity and legitimate tax form filings.

Additionally, it is recommended that victims of identity theft take the following steps:

- File a report with the local police.
- Contact the fraud departments of the three major credit bureaus:
 - Equifax - www.equifax.com, 800-525-6285
 - Experian - www.experian.com, 888-397-3742
 - TransUnion - www.transunion.com, 800-680-7289
- Close any accounts that have been tampered with or opened fraudulently.

How can taxpayers minimize the chance of becoming a victim of identity theft?

According to the IRS, taxpayers can take the following steps to minimize the threat of identity theft:

- Don't carry a Social Security card or other documentation with a SSN on it.
- Don't give a SSN to a business just because it is requested. Such information should be provided only when it is required.
- Ensure that financial information is protected.
- Check credit reports every 12 months.
- Secure personal information stored at home.

- Protect personal computers by using firewalls, anti-spam/virus software, update security patches, and change passwords for Internet accounts.
- Don't give personal information over the phone, through the mail, or on the Internet unless the recipient was contacted or is known.

The takeaway

Identity theft is on the rise and taxpayers should take appropriate steps to protect private information and files and be observant of any unusual activity involving their personal and business accounts. In addition, taxpayers should be alert to possible identity theft if they receive an IRS letter or notice that states that:

- more than one tax return for a particular tax year was filed in their name
- there is a balance due, refund offset, or collection actions taken for a year for which the taxpayer has not yet filed a tax return
- IRS records indicate wages have been received from an employer unknown to the taxpayer.

Taxpayers should work with the IRS to ensure that any fraudulent return is removed from their tax account and certify that their legitimate return is processed. Unfortunately, taxpayers are likely to see their refunds delayed for an extended period of time while the IRS takes the necessary actions to resolve these matters. A typical case can take about 180 days to resolve, but we understand that the IRS is working to reduce that time period.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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