



Economic and Market Insights

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Trending Upward Again in 2015 – Taxpayer Identity Theft

As head of The Commerce Trust Company's East Region tax group, Tom Bassett takes a moment to share his bird's eye view of a growing problem that federal tax filers will face as we build toward the April 15th tax deadline.

Q. As tax season gets into full swing, what are you seeing as the top issue for tax preparers and tax filers this year?

A. The number one issue I see is the growing problem of Stolen Identity Refund Fraud. The bad guys are getting more sophisticated at stealing identities and electronically filing false claims with the IRS. The problem is enormous and going to get worse before it gets better.

Q. How extensive is refund fraud?

A. The Treasury Department estimates the IRS will lose \$21 billion in fraudulent tax refunds over the next five years. To put that in perspective, that is more than twice the Environmental Protection Agency's annual budget. It's a serious drain on our national resources.

Q. What is the IRS doing about the problem?

A. Sadly, even the IRS's ability to combat identity theft has been compromised. The IRS is experiencing budget cuts and reductions in tax processing personnel. This will hurt the agency's ability to track and prosecute these crimes. And identity theft is a particularly tough area to investigate because a single case evolves into a spider web of complicity.

Q. How do these white collar thieves prey on taxpayers?

A. Essentially the fraudsters acquire your SSN and personal information through various means and electronically file an income tax return in your name before you do, requesting that the refund be sent to a pre-paid debit card. They have successfully exploited lax security controls and firewall protection at the IRS, embarrassing the agency with high profile breaches.



Q. Can tax preparers and tax filers do anything to fight this theft of taxpayer funds?

A. Yes, they can. As one measure to address identity theft, the IRS has created an Identity Theft Affidavit, Form 14039. If you or your tax preparer think you have experienced an event where your personal information may have been compromised, you can alert the IRS ahead of time that your return could be in jeopardy. They will then issue you a special secure PIN that is, in essence, a shared secret between you and the IRS. Going forward, you would supply the PIN on your tax filings. You would be issued a new PIN every year.

Q. Who should consider using the form?

A. Many of us. The news is full of retailers and other companies whose records have been hacked even in the last year — if you've shopped at any of these outlets, and who hasn't, your personal information could be compromised.

Q. Would it be better to file on paper vs. electronically?

A. It makes no difference on your chances of being defrauded. The thief is simply interested in getting to your employer deposits credited to your IRS account (your withholding and any prepayments) before you do. If you try to electronically file your return, you will get immediate feedback that your SSN has been compromised, whereas if you paper file, it could be months before the Service inputs your return, and months before they tell you your account has been compromised.

Q. What should a tax payer do if they receive IRS notice their taxes have been filed by someone other than them?

A. If the fraud has already occurred, notify the IRS Identity Protection Specialized Unit at 1-800-908-4490.*

**Always consult with your CPA and professional advisor on matters involving income taxes.*

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