



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

MEMORANDUM

To: Reporters and Editors
Re: IRS announcement on frozen refunds
Da: Tuesday, Jan. 24, 2006

Today Internal Revenue Service Commissioner Mark Everson announced that he has directed a review of the agency's Questionable Refund Program to include notification procedures for refunds and improvements to minimize the number of refunds frozen unnecessarily. Sen. Chuck Grassley, chairman of the Committee on Finance, with IRS jurisdiction, has urged the IRS and the Treasury Department to fix problems in the program. Last Friday, he wrote the Treasury secretary, seeking a fix in time for this spring's filing season. Grassley's action came after the National Taxpayer Advocate, who serves as an ombudsman for taxpayers with the IRS, faulted the IRS' refund fraud detection program in her annual report of the worst problems facing taxpayers. Taxpayer Advocate Nina Olson said the IRS freezes tens of thousands of tax refunds it deems questionable every year without telling taxpayers that they're suspected of fraud. Grassley made the following comment on today's announcement.

"This is a good step. It's responsive to a basic taxpayer rights issue. Taxpayers deserve notification of their refund status and a chance to tell their side of the story. They deserve not to get caught in a criminal dragnet unnecessarily. The IRS commissioner recognizes the need to balance enforcement with fair treatment of taxpayers. It's a challenge to keep that balance, and it's important to have a commissioner who can do it. I look forward to reviewing the new notification procedures and steps to minimize the number of frozen refunds when they're announced. I'll continue to work with the IRS to target tax fraud wherever it occurs, through individuals, groups, or businesses."

The text of the IRS' news release follows.

Commissioner Everson Calls for Improvements to Refund Fraud Program

IR-2006-19, Jan. 24, 2006

WASHINGTON - IRS Commissioner Mark W. Everson today announced that he has directed a review of the Questionable Refund Program, which will include notification procedures pertaining to frozen refunds.

"We will announce plans in the very near future to institute notification procedures as well as significant processing improvements to minimize the number of taxpayers whose

refunds are frozen unnecessarily," Everson said in announcing the review.

The IRS noted that members of Congress and the National Taxpayer Advocate have raised legitimate issues regarding the length of delay and lack of notification for refund claims and have called for changes to the program.

"Claiming fraudulent refunds ultimately undermines the integrity of the tax system, but I believe that appropriate notification should be given when refunds have been frozen," Everson said. "Honest taxpayers expecting a refund deserve to be treated fairly."

The IRS established the Questionable Refund Program (QRP) to deal with the serious problem of refund fraud, which has increased significantly in recent years. The IRS estimates that refund fraud now exceeds a half-billion dollars a year. Congress has held a number of hearings urging the IRS to devote additional resources and improve its detection and prevention of fraudulent refunds, particularly those involving prisoners.

The typical fraudulent refund claim involves false income and withholding. A significant portion includes false Earned Income Tax Credit claims of up to \$4,400 per return.

According to the IRS, each year it receives more than 130 million individual income tax returns and issues over 100 million refunds totaling over \$200 billion. The QRP holds for further scrutiny less than 1 percent of refund returns. Of the refund claims held beyond the normal refund cycle, about 200,000 or 0.2 percent of all refund claims are held longer than one week, and many refunds are held for a period of months or even years.

The IRS has often not sent notices to those taxpayers whose refunds are held because some of these returns are subject to additional criminal investigation. Therefore, the taxpayers may be unaware that their refunds have been frozen.