



## Treasury Inspector General for Tax Administration

### OUTREACH HAS IMPROVED, BUT MORE ACTION IS NEEDED TO EFFECTIVELY ADDRESS EMPLOYMENT-RELATED AND TAX FRAUD IDENTITY THEFT

Issued on March 25, 2008

## Highlights

Highlights of Report Number: 2008-40-086 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### IMPACT ON TAXPAYERS

Identity theft is a growing national problem that affects tax administration. A proactive identity theft prevention approach is needed to effectively address employment-related and tax fraud identity theft so taxpayers will not continue to be victimized.

### WHY TIGTA DID THE AUDIT

This audit was initiated because individuals who steal taxpayer identities can affect the tax system by using another person's name and Social Security Number to (1) file a fraudulent tax return to steal a tax refund or (2) obtain employment that results in the misreporting of income. TIGTA evaluated the effectiveness of the Internal Revenue Service's (IRS) actions in assisting taxpayers victimized by identity theft with their current and future tax compliance issues and in pursuing action against individuals responsible for employment-related and tax fraud identity theft.

### WHAT TIGTA FOUND

The IRS has not placed sufficient emphasis on employment-related and tax fraud identity theft. The IRS Criminal Investigation Division investigates identity theft crimes only if they are committed in conjunction with other criminal offenses having a large tax effect. As a result, the IRS has mainly focused on combating identity theft through public outreach. In addition, current processes have been inadequate in reducing burden for taxpayers victimized by identity theft. The IRS still lacks the comprehensive data needed to determine the impact identity theft is having on tax administration.

### WHAT TIGTA RECOMMENDED

The Deputy Commissioner for Operations Support should coordinate with the Deputy Commissioner for Services and Enforcement to (1) develop and implement a strategy to address employment-related and tax fraud identity theft, including coordinating with other Federal Government agencies, (2) update the Automated Underreporter system to display prior year case closing codes on the individual case screens and create identity theft closing codes for multiple issue cases, and (3) revise Withholding Compliance function case selection criteria to incorporate special handling of identity theft victims.

In their response to the report, IRS officials generally agreed with all the recommendations. The IRS is developing a 5-year strategy for the Privacy, Information Protection, and Data Security office that will include identity theft issues. However, management does not plan to more actively identify or stop individuals from committing employment-related identity theft or to notify employers of their employees' actions because of confidentiality and disclosure restrictions. However, management provided a copy of our draft audit report to the Office of the Assistant Secretary of the Treasury for Tax Policy so it can evaluate whether legislative remedy should be sought.

In January 2008, the IRS implemented the universal identity theft indicator to mark taxpayer accounts when the taxpayer self-identifies as an identity theft victim and provides the proper documentation to verify his or her identity. This code enables the IRS to centrally track identity theft incidents and eliminates the need to update the Automated Underreporter system case screens and develop closing codes for multiple issue cases. The IRS plans to develop business rules for various programs to apply unique treatments to cases when the universal identity theft indicator is present.

TIGTA acknowledges the IRS' efforts to improve business processes to reduce burden on identity theft victims. Effective use of the universal identity theft indicator should reduce the number of multiple contacts made with taxpayers. However, TIGTA is still concerned about the lack of action on employment-related identity theft cases and details in management's response concerning the responsible officials and implementation dates for some of their planned actions. In addition, because the Identity Theft Clearinghouse is the sole national repository of consumer identity theft complaints, it should be an important source of data for the Criminal Investigation Division.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840086fr.pdf>.

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