



IDENTITY THEFT

Lengthy Issue Resolution Delays and Inadequate Notices Burden Taxpayers Who Are Victims of Identity Theft or Whose Returns the IRS Has Flagged for Possible Identity Theft

WHY THIS IS A SERIOUS PROBLEM FOR TAXPAYERS

Individuals who are victims of tax-related identity theft are waiting an average of nearly 19 months for the IRS to process their returns and send their refunds. Yes, you read that correctly: for many victims, that's *more than a year and a half!* During the pandemic, the IRS's policy decisions to prioritize other areas (such as shuffling employees to answer telephone lines) contributed to these unreasonable processing delays that continued throughout 2023 and are expected to continue into 2024. But there is a second group of taxpayers also harmed. Each year, the IRS flags millions of returns for potential identity theft. Taxpayers who have filed legitimate returns deal with inadequate notices and difficulties authenticating their identity. Until a taxpayer completes authentication, the IRS cannot process their tax return or send their refund.

EXPLANATION OF THE PROBLEM

With enough identifying information, a criminal can fraudulently file an individual or company's tax return. The U.S. Federal Trade Commission (FTC) received about 2.8 million fraud and identity theft reports in 2021, a 22 percent increase from the year prior.¹ Reports of associated financial losses topped \$5.9 billion in 2021, an increase of over 70 percent compared with 2020.²

1 FED. TRADE COMM'N, CONSUMER SENTINEL NETWORK DATA BOOK 2021 (2022), <https://www.ftc.gov/reports/consumer-sentinel-network-data-book-2021>.

2 FTC Press Release, *New Data Shows FTC Received 2.8 Million Fraud Reports from Consumers in 2021* (Feb. 22, 2022), <https://www.ftc.gov/news-events/news/press-releases/2022/02/new-data-shows-ftc-received-28-million-fraud-reports-consumers-2021-0>.

Identity theft is a persistent problem that affects taxpayers, the IRS, and tax administration. Many taxpayers may not even know of the theft until they try to electronically file their tax return, only to have IRS systems reject it due to a previous filing using their Social Security number. The IRS's Identity Theft Victim Assistance (IDTVA) program, among other things, helps these taxpayers resolve their identity theft issues.³

Though the IRS has taken steps to prevent tax-related identity theft, its efforts have resulted in millions of taxpayers facing significant problems including refund delays. Both the IDTVA program and the IRS efforts to prevent identity theft are experiencing significant challenges, including:

- Taxpayers who are victims of tax-related identity theft often must wait nearly 19 months for the IRS to process their returns and send their refunds;⁴
- IRS systems for detecting and preventing identity theft have struggled with high false detection rates, subjecting taxpayers who filed legitimate returns to refund delays;
- Taxpayers receive only one letter asking them to authenticate their identity when the IRS suspects an identity thief may have filed a tax return, and taxpayer response rates to these letters are low; and
- Some taxpayers are having to wait too long to receive their Identity Protection Personal Identification Numbers (IP PINs), delaying access to an underutilized tool for preventing tax-related identity theft.

ANALYSIS

Taxpayers Who Are Victims of Tax-Related Identity Theft Often Must Wait Nearly 19 Months for the IRS to Send Their Refunds and Process Their Returns

Taxpayers who are victims of tax-related identity theft can seek assistance from the IRS's IDTVA program.⁵ Unfortunately, extremely long cycle times plague the IDTVA program due to several factors, including the IRS temporarily shutting down during the beginning of the pandemic and the issuance of pandemic relief in the form of Economic Impact Payments and Advance Child Tax Credit payments. Together, these created a significant increase in IDTVA case receipts.⁶ (Note: These delays have caused a significant hardship for taxpayers, particularly low-income taxpayers who rely on their refunds to pay their day-to-day living expenses, as 69 percent of these taxpayers had adjusted gross income at or below 250 percent of the Federal Poverty Level in fiscal year (FY) 2023.)⁷ Figure 2.6.1 shows the increase in case receipts and cycle times as well as the IRS's continued struggle to close IDTVA-Accounts Management (AM) inventory.

3 IRS, IRS Identity Theft Victim Assistance: How It Works, <https://www.irs.gov/individuals/how-irs-id-theft-victim-assistance-works> (last visited Dec. 4, 2023).

4 IRS, Accounts Management (AM) IDTVA, Research Analysis and Data (RAD), Correspondence Imaging System (CIS) Closed Case Cycle Time for the Identity Theft (IDT) Victims Unit Reports, Fiscal Year (FY) 2023.

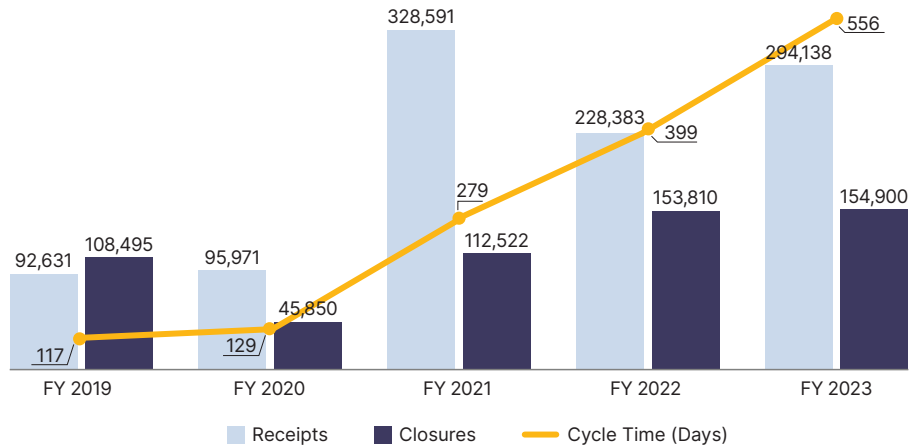
5 The IRS's AM group works most identity theft cases.

6 Internal Revenue Manual (IRM) 25.23.2.3.1, Dependent Identity Theft (Oct. 1, 2022), https://www.irs.gov/irm/part25/irm_25-023-002r. On November 9, 2020, the IRS began working cases where a dependent's identity had been improperly used. This opened an entire subset of the identity theft population after the 2019 tax season for the IRS to work. Cycle time begins with IDTVA receipt of the identity theft claim and ends when the IDTVA employee takes action to correct the taxpayer's account.

7 Taxpayers typically become aware that their identity has been used to file a fraudulent return when they attempt to e-file their tax return and the IRS rejects it or when they receive an IRS notice informing them that they owe the IRS money. IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) and Individual Returns Transaction File (IRTF) (Sept. 28, 2023).

FIGURE 2.6.1⁸

Identity Theft Victim Assistance Individual Case Receipts, Closures, and Cycle Times



In FY 2019, the IRS received 92,631 IDTVA receipts, and in FY 2021, that number jumped to 328,591.⁹ This increase in AM case receipts drove up cycle times from 117 days in FY 2019 to 279 days in FY 2021 and to 556 days, nearly 19 months, in FY 2023, its highest point to date.¹⁰ This 556-day time period falls far outside the 120-day time period the IRS typically strives for when resolving IDTVA claims.¹¹

The IRS’s cycle times for IDTVA cases increased due to the significant rise in identity theft cases and the challenges that continuing IRS operations faced during pandemic (*i.e.*, employees could not enter worksites and process these claims).¹² However, the IRS prioritized certain aspects of its customer service, most notably achieving an 85 percent Level of Service (LOS) on certain toll-free lines, which came at the expense of other IRS operations including the processing of IDTVA claims. To achieve this 85 percent LOS goal, the IRS used extra funding to hire about 5,000 employees to answer incoming calls.¹³ Besides hiring new employees, the IRS also took most AM customer service representatives (CSRs) off their assigned duties and reassigned them to answer incoming calls on the toll-free lines.¹⁴ This included reassigning 572 identity theft CSRs

8 IRS, Joint Operations Center (JOC), AM RAD, CIS Closed Case Cycle Time for the AM Individual Taxpayer IDT Victims Unit Reports, for FY 2019 through FY 2023. In FY 2019, the IRS did not provide a breakout for only AM IDTVA inventory so the actual time may be slightly higher. Customer Accounts Service (CAS), IDTVA IMF Account in Inventory Reports, FY 2019 through FY 2023.

9 IRS, JOC, CAS, AM Paper Inventory Report, IDTVA Reports, AM, FYs 2019, 2021, and 2023.

10 IRS, JOC, AM IDTVA, RAD, CIS Closed Case Cycle Time for the Identity Theft Victims Unit Reports, FYs 2019, 2021, and 2023. Note: The 556-day time period is for IDTVA cases AM works that make up the vast majority of IDTVA cases. These cases include individual IDTVA cases worked in AM but do not include individual IDTVA cases involving a compliance issue worked in AM. The time period for all IDTVA cases is slightly less, running at an average of 497 days to reach resolution.

11 IRM 25.23.2.2.3, IDT Case Processing Time Frames (Mar. 16, 2023), https://www.irs.gov/irm/part25/irm_25-023-002r. The IRS is advising taxpayers that it typically resolves IDTVA cases within 120 days, but due to extenuating circumstances, it is taking the IRS on average 480 days to resolve these cases (processing timeframe was increased from 430 days to 480 days per IRM Procedural Update 23U0987).

12 IRS, Servicewide Electronic Research Program Alert 20A0135, Product Line Closure (Mar. 24, 2020). The IRS shut down all phone lines on April 1, 2020.

13 Janet L. Yellen, Sec’y of the Treasury, Remarks at the IRS Facility in New Carrollton, Maryland (Sept. 15, 2022), [home.treasury.gov/news/press-releases/jy0952](https://www.treasury.gov/news/press-releases/jy0952).

14 National Taxpayer Advocate Fiscal Year 2024 Objectives Report to Congress 1 (*Review of the 2023 Filing Season*), <https://www.taxpayeradvocate.irs.gov/reports/2024-objectives-report-to-congress/full-report/>.

from identity theft paper inventory to the AM phone lines.¹⁵ If the IRS reassigns identity theft CSRs to work AM phone lines in the 2024 filing season, this will likely further delay the closure of more IDTVA cases, aggravating an already untenable situation.

Perhaps this trade off was understandable so taxpayers could obtain the answers they needed during filing season, but we are now more than three years from the beginning of the pandemic. The IRS should be able to figure out how to provide taxpayers with the customer service they need without siphoning it from other critical programs. The continuation of these extraordinary cycle times is unreasonable, burdens taxpayers, and compromises taxpayer rights.

IRS Systems for Detecting and Preventing Identity Theft Have Struggled With High False Detection Rates, Subjecting Taxpayers Who Filed Legitimate Returns to Refund Delays

The IRS created the Taxpayer Protection Program (TPP) to identify and stop the processing of returns filed by identity thieves to prevent the issuance of fraudulent refunds. To prevent fraud, it screens returns by running them through a series of filters. After the IRS applies the filters to the return information, the return receives a score; if that score exceeds a certain threshold, the IRS will route the return to the TPP.¹⁶ Once the filters select a return as potential identity theft, the IRS issues letters to taxpayers instructing them to authenticate their identity and return information. The most common letters the IRS sends to taxpayers instruct them to either authenticate online, over the phone, or in person at a Taxpayer Assistance Center (TAC).¹⁷ The IRS will not complete processing of these returns or issue refunds associated with them until taxpayers complete the authentication process.¹⁸

The IRS's programming of its identity theft fraud detection systems' filters and models is a tricky balancing act. The filters must be broad enough to detect most of the possible identity theft returns while also minimizing the number of legitimate returns selected into the program. When the filters select legitimate returns into the TPP, the IRS commonly refers to this as the "false detection rate" (FDR).¹⁹ Over the past few years, the IRS has consistently set its FDR target at about 50 percent, and each year the FDR has exceeded this target, with the exception of calendar year (CY) 2022, when it achieved an FDR of about 47 percent.²⁰ Figure 2.6.2 shows the FDR for the TPP over the past three years.

15 IRS response to TAS information request (Sept. 21, 2023). The 572 employees were permitted to work IDTVA cases during their allotted overtime.

16 See IRM 25.25.6.1(1) and (3), Program Scope and Objectives (Nov. 1, 2021), https://www.irs.gov/irm/part25/irm_25-025-006r; IRM 25.25.3.1(1), Program Scope and Objectives (Aug. 30, 2019), https://www.irs.gov/irm/part25/irm_25-025-003r.

17 IRS, Letter 5071C, Potential Identity Theft during Original Processing with Online Option (Jan. 3, 2023).

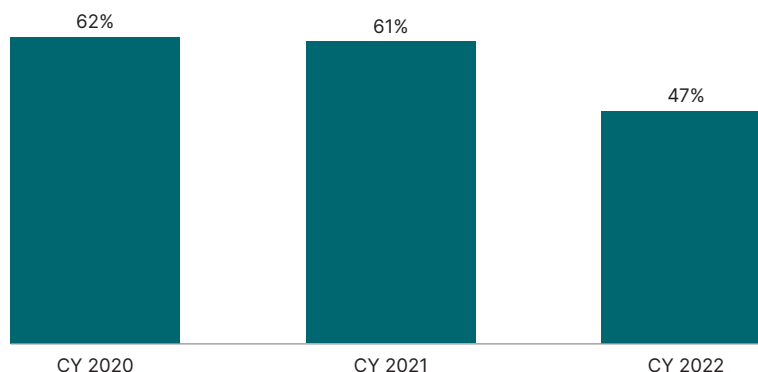
18 The IRS can release returns that TPP selects and holds without taxpayer contact if the IRS receives enough third-party data on the return allowing the IRS to confirm its authenticity.

19 A false positive occurs when a system selects a legitimate return and delays the refund past the prescribed review period. IRS response to TAS information request (Oct. 19, 2017).

20 IRS, Wage and Investment (W&I) Business Performance Review (BPR) Q3, FY 2023 (Aug. 2023).

FIGURE 2.6.2²¹

Taxpayer Protection Program False Detection Rates 2020, 2021, and 2022



Acknowledging that the IRS's identity theft fraud detection system will always select legitimate returns into the TPP, it is critical that the filters keep the FDR at a reasonable level. The IRS should take steps to ensure that the lower FDR in CY 2022 is the beginning of a trend – and not a blip – putting the FDRs more in line with its regular target of about 50 percent, which is the target range experienced by merchants.²² A lower FDR will reduce the number of taxpayers who filed legitimate returns having their returns selected into the TPP, thus eliminating the need for taxpayers to spend time authenticating their identity and return information to obtain their refund.

Additionally, it is important that the authentication process is quick and simple. However, IRS data indicates that taxpayers experience difficulties authenticating their identity and return information. In CY 2022, it took taxpayers 46 days on average to authenticate their identities.²³ The IRS has been working with TAS to develop a survey to better understand why it takes taxpayers so long to complete the authentication process. This survey will help the IRS identify the barriers taxpayers may experience when attempting to complete the authentication process (*e.g.*, taxpayers don't understand the letters, have difficulty answering the online authentication questions, or can't get an appointment at a TAC).

Taxpayers Receive Only One Letter Asking Them to Authenticate Their Identity When the IRS Suspects an Identity Thief May Have Filed a Return, But Taxpayer Response Rates to These Letters Are Low

When the IRS is questioning whether a return is legitimate, it will send taxpayers one letter asking them to authenticate their identity, and it will not process their return and issue their refund until the taxpayer responds to the letter and completes the authentication process. Because the IRS is holding taxpayers' refunds, it would be reasonable to assume taxpayers would quickly respond to these letters. However, about half of the authentication letters sent out in CY 2022 resulted in no response. In 2022, the IRS suspended processing of 4.8 million tax returns and requested taxpayers authenticate their identities before releasing their refunds.²⁴ Out of those, the IRS resolved about two million tax returns suspected of identity theft through

21 IRS, W&I, BPR Q3, FY 2023 (Aug. 2023); IRS, W&I, BPR Q4, FY 2022 (Nov 2022).

22 Keith Briscoe, *Fraud and False Declines: Fighting the Downward Spiral With Collaboration*, THE PAYPERS, Apr. 28, 2017, <https://www.thepayers.com/expert-opinion/fraud-and-false-declines-fighting-the-downward-spiral-with-collaboration/768755>.

23 IRS, W&I, BPR Q3, FY 2023 (Aug. 2023).

24 IRS, IDT and Integrity and Verification Operation (IVO) Inventory End of Year Main Report (Dec. 31, 2022).

internal research or taxpayer responses and released the refunds; taxpayers confirmed nearly 255,000 as identity theft. However, over 2.5 million returns remained suspended as of December 31, 2022, because the taxpayers still had not authenticated their identities with the IRS.²⁵

There are many reasons a taxpayer might not respond to an authentication letter. For example, the IRS presumes that if a taxpayer does not respond to an authentication letter, it was likely that the identity thief received it and abandoned their plan to steal the refund upon realizing the IRS was aware of the fraud. This is a legitimate explanation that makes up a portion of the roughly 2.5 million taxpayers who did not respond to IRS authentication letters. But there are also other possible explanations for this high no-response rate that the IRS needs to examine, including that the taxpayer never received the authentication letter, or they received it but didn't understand it.

Taxpayers May Not Receive Authentication Letters

Some taxpayers may not respond to the letters because they never received them. One issue is that the IRS does not track the number of TPP letters returned as undeliverable.²⁶ Therefore, it cannot place an indicator on a taxpayer's account that the post office returned a letter or notice or investigate to find a more recent address. We recommend the IRS track the number of TPP letters returned as undeliverable to better understand the magnitude of this issue. Additionally, when letters are returned as undeliverable, the IRS should conduct research to determine if the taxpayer has a more recent address.

Another issue occurs because the IRS will only send an authentication letter to the address used on the tax return that the TPP filters selected.²⁷ Even when a taxpayer calls to update their address, the IRS will not update it because it does not want to possibly send the letter to the individual attempting to perpetrate the fraud.²⁸ Though it's logical to want to prevent fraudulent refunds, the IRS burdens taxpayers with these rules, particularly those who are transient or move frequently, and most are low-income. (Note: Nearly 69 percent of the taxpayers whose returns the IRS selected into TPP in FY 2023 had income at or below 250 percent of the Federal Poverty Level.²⁹) When the taxpayer contacts the IRS to update their address, the IRS should verify the address the taxpayer has provided by conducting independent research.

Even If Taxpayers Receive Their Authentication Letter, They May Struggle to Understand It and the Process

Taxpayers and practitioners have often complained that IRS identity theft authentication letters are overly complex and unclear. During a conversation about the authentication process with Low Income Taxpayer Clinic practitioners, they stated that many taxpayers – particularly those who speak English as a second language – find both the letters and the authentication process complicated and confusing. To the IRS's credit, it has taken these criticisms to heart and made an initial step toward improving the clarity of these letters.³⁰ If taxpayers cannot understand the letters in plain language, they will either call the IRS's TPP toll-free phone line to seek additional information, or they will simply not take any action to authenticate their identities.

25 IRS, IDT and Integrity and Verification Operation (IVO) Inventory End of Year Main Report (Dec. 31, 2022).

26 IRS response to TAS information request (Sept. 21, 2023).

27 See IRM 25.25.6.1, Program Scope and Objectives (Nov. 1, 2021), https://www.irs.gov/irm/part25/irm_25-025-006r.

28 IRM 25.25.6.6.2(4), Procedures for When the Caller Has Not Received or Lost the Taxpayer Protection Program (TPP) Letter (May 23, 2023), https://www.irs.gov/irm/part25/irm_25-025-006r.

29 IRS, CDW, IMF and IRTF (Sept. 28, 2023).

30 The IRS revised Letter 5071C, Potential Identity Theft during Original Processing with Online Option, on January 3, 2023.

In 2023, taxpayers who attempted to call the toll-free line to seek clarification regarding authentication letters had trouble reaching a CSR, as only about 31 percent of taxpayers who called the TPP line reached an IRS assistor.³¹

The IRS recently studied how to improve taxpayer responses to these letters by examining the usage of QR codes, which taxpayers scan with their smartphone to visit a website that explains the letter and what they need to do next. In 2022, it found that only about 18 percent of taxpayers who received a letter with an insert that included a QR code actually used the code; its 2023 pilot showed that for taxpayers who received a letter with a QR code directly embedded, the usage rate ranged from 44-58 percent.³² This was the case for all age groups, including taxpayers aged 60 or older, the age group least likely to use the QR code.³³ The findings support that taxpayers are more likely to use embedded QR codes, but the IRS should not use the codes as a replacement for important information included in letters. Some taxpayers will not use the QR code or do not have the necessary smartphone to access the information. The IRS should build on this study and develop another study that focuses more on the letter content and tests variations on the language to deliver the same message and see what yields a better response rate.

In addition to content, the IRS should explore whether sending multiple authentication letters rather than merely sending one would increase the taxpayer response rate. To examine this possibility, TAS is conducting a study where it is sending letters to nearly 4,000 taxpayers it suspects filed legitimate returns but whose refunds the IRS has not issued because the taxpayers haven't responded to the IRS to authenticate their identity.³⁴ These TAS letters offer assistance with identity authentication. The IRS should conduct its own study determining whether sending multiple letters increases taxpayers' response rates.

Some Taxpayers Have to Wait Too Long to Receive Their Identity Protection Personal Identification Numbers, Delaying Access to an Underutilized Tool for Preventing Tax-Related Identity Theft

The IRS Is Behind in Processing These Requests Made on Paper Forms

Any taxpayer who wants to protect themselves from tax-related identity theft can request an IP PIN, and taxpayers who have experienced tax-related identity theft are automatically issued an IP PIN at the time the IDTVA program resolves their case.³⁵ The IP PIN is a unique number known only to the taxpayer and the IRS. Taxpayers in the IP PIN program receive a new IP PIN annually.

Taxpayers without a tax-related identity theft case who would like an IP PIN can apply online, by mail with a completed Form 15227, Application for an Identity Protection Personal Identification Number, or by visiting a TAC in person.³⁶ Online and in person are probably the most expedient ways to get an IP PIN, but the online method requires an authentication process that some taxpayers might find burdensome. The in-person method requires taxpayers to travel to a TAC.³⁷ Figure 2.6.3 breaks down how taxpayers requested IP PINs in FY 2022.

31 IRS, JOC Snapshot Product Line Detail Report (Sept. 30, 2023). One reason for this low LOS is that the IRS focused a number of its resources on specific AM phone lines to meet an 85 percent LOS goal. Unfortunately, the IRS did not include the TPP phone line in this 85 percent LOS goal, likely contributing to the continued frustration for taxpayers who sought information about their refund delays and steps to take.

32 IRS TPP Letter Pilot, Final Analysis FY 2023, slide 11 (Aug. 21, 2023).

33 IRS TPP Letter Pilot, Final Analysis FY 2023 (Aug. 21, 2023).

34 TAS sent letters to taxpayers whom it suspects filed legitimate returns. TAS looked at certain criteria on the returns to make this determination, including if the taxpayer received a refund in subsequent years, the taxpayer's age, and the amount of taxpayer's withholding, among other things.

35 IRM 25.23.2.9.1.1, Automatic Enrollment in the IP PIN Program (Feb. 2, 2023), https://www.irs.gov/irm/part25/irm_25-023-002r.

36 See IRS, Get an Identity Protection PIN (IP PIN), <https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin> (last visited Sept. 15, 2023).

37 *Id.*

FIGURE 2.6.3, Methods for Requesting an IP PIN During the 2022 Filing Season³⁸

Taxpayer Assistance Center	Form 15227	Online
5,800	6,400	491,000

For taxpayers who request an IP PIN by mailing Form 15227 to the IRS, processing times have increased. The IRS currently aims to process these requests within 120 days of receiving them;³⁹ however, in FY 2023 through September 30, 2023, 60 percent of the IP PIN applications took beyond 120 days, increasing taxpayer anxiety.⁴⁰ The increase in IDTVA cases over the last several years has increased processing delays, and the IRS needs to ensure it is devoting enough resources to processing paper IP PIN requests in a timely fashion. It should consider providing taxpayers with an application they can electronically submit to the IRS. Although taxpayers using this method would not receive an IP PIN instantaneously like they would if they use the online application, the processing time would be shorter for these electronically submitted forms.

Identity Protection Personal Identification Numbers Are an Underutilized Identity Theft Protection Tool

The IP PIN is a valuable and underutilized identity theft protection tool for taxpayers. Anyone concerned about tax-related identity theft can request an IP PIN; however, only about 525,000 taxpayers opted into the IP PIN program in CY 2022.⁴¹ The FTC received over 1.1 million reports of identity theft in 2022.⁴² Thus, there were more than double the number of individuals affected by identity theft than those who requested IP PINs. There are a few possible explanations for this low participation rate. Taxpayers may be reluctant to voluntarily opt into the program because they can't opt out of it. It's understandable that the IRS would not permit taxpayers who have been victims of tax-related identity theft to opt out because the IRS needs to protect the government fisc and prevent issuing improper refunds to bad actors. However, this justification does not apply to taxpayers who voluntarily opt into the program. The IRS should provide these taxpayers a way to opt out of the IP PIN program before the next filing season.

Another possible explanation is that taxpayers aren't aware of the availability of this option and how it can protect them against tax-related identity theft. The IRS should expand its outreach efforts, ensuring that financial institutions, local law enforcement, and state taxing authorities know of the IRS's IP PIN program and can inform individuals how to access it. For example, if taxpayers have been victims of financial identity theft, such as finding irregular charges to their bank accounts, their bank should inform them about getting an IP PIN if they are also concerned about tax-related identity theft. Once informed, taxpayers can visit the IRS website and request an IP PIN as an added precaution. This type of collaboration with private-public stakeholders will expand awareness of this effective identity theft protection tool.

38 IRS, W&I, BPR Q4, FY 2022 (Nov. 2022). Data is as of early October 2022.

39 IRM 25.23.12.6.1, Responding to Telephone Inquiries Regarding Form 15227 for Obtaining an IP PIN (Oct. 1, 2023), https://www.irs.gov/irm/part25/irm_25-023-012r.

40 IRS, JOC, CAS, CAS AM Paper Inventory Reports, FY 2023 IDTVA Inventory Report (week ending Sept. 30, 2023). In FY 2023, the IRS received approximately 42,230 IP PIN applications. Recently, the IRS extended the overage timeframe for processing IP PIN requests from 90 days to 120 days. IRM 25.23.12.6.1, Responding to Telephone Inquiries Regarding Form 15227 for Obtaining an IP PIN (Oct. 1, 2023), https://www.irs.gov/irm/part25/irm_25-023-012r. On average, it is taking the IRS 480 days to process some applications.

41 IRS, W&I, BPR Q1, FY 2023, at 6 (Feb. 23, 2023).

42 FTC Press Release, *New FTC Data Show Consumers Reported Losing Nearly \$8.8 Billion to Scams in 2022* (Feb. 23, 2023), <https://www.ftc.gov/news-events/news/press-releases/2023/02/new-ftc-data-show-consumers-reported-losing-nearly-88-billion-scams-2022>.

CONCLUSION AND RECOMMENDATIONS

Tax-related identity theft is a continuous problem that plagues taxpayers and the IRS, and its prevalence has increased in recent years due to pandemic-related circumstances that enticed many bad actors. For those individuals or businesses that have been victims of identity theft it is a difficult, unpleasant, and emotional experience. Victims of identity theft may feel overwhelmed, helpless, angry, isolated, betrayed, and even embarrassed. This crime may trigger fears regarding financial security and the ability to trust again. The IRS should do everything possible to timely assist these victims and provide them with the peace of mind that the IRS is looking out for their best interests and protecting their rights.

Although the IRS has worked diligently to prevent tax-related identity theft, there is still room for improvement. The FDRs of IRS identity theft filters and models have consistently been too high in past years, only coming down to a more reasonable level in FY 2022, and too few taxpayers respond to IRS letters asking them to authenticate their identities. Taxpayers who avail themselves of one of the most effective ways to protect themselves from tax-related identity theft may have to wait more than 120 days for the IRS to complete their initial IP PIN request if they submit their request by mail.

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. Refrain from having IDTVA employees perform other duties unrelated to working identity theft cases until the average cycle time for resolving IDTVA cases is less than 90 days.
2. Program identity theft filters to consistently have an FDR below 50 percent.
3. Conduct a pilot where the IRS sends taxpayers authentication letters using different versions of plain language and tests sending multiple letters in close proximity of one another to determine if these changes improve the taxpayer response rate.
4. Track when the IRS receives authentication letters returned as “undeliverable” and develop procedures to have IRS employees conduct research to verify a taxpayer’s most recent address.
5. Provide a process by which taxpayers can electronically submit Form 15227 and ensure the process routes the forms to the appropriate unit within 48 hours of receipt.
6. Conduct outreach to private-public stakeholders making them aware of the availability of IP PINs and how taxpayers can request them.
7. Provide taxpayers who voluntarily opt into the IP PIN program a means by which they can opt out of the program.

RESPONSIBLE OFFICIAL

Kenneth Corbin, Commissioner, Wage and Investment Division