

## IRS Warns of Identity Theft and Online Fraud

The Internal Revenue Service ("IRS") recently prepared a presentation that outlines its efforts to protect taxpayers from identity theft, which is the top consumer complaint reported to the Federal Trade Commission.

### Tax-Related Identity Theft

Identity theft incidents related to government benefits are often the most common and complex and take more time and money to detect and resolve than other incidents.

There are two primary ways identity theft can affect taxes:

1. **Refund-related crime:** The identity thief uses a stolen Social Security number to file a forged tax return and obtain a refund early in the filing season.
2. **Employment-related crime:** The identity thief uses a stolen Social Security number to obtain employment.

To combat tax-related identity theft, the IRS has enhanced fraud protection processes for the 2012 filing season and developed a comprehensive identity theft strategy focused on: detection and prevention; protection; and victim assistance.

The IRS's actions include:

- **Placing identity theft indicators on taxpayer accounts to track and manage identity theft.** The indicators

primarily identify different types of identity theft to a specific account, including refund-related identity theft, employment-related identity theft, accounts with no filing information, and lost information (i.e., a lost wallet.)

- **Using business filters to ensure the IRS accepts legitimate returns and rejects false returns.** The business filters allow the IRS to identify identity theft, ensure only legitimate returns are processed, flag questionable returns for manual review to validate legitimacy, and reject fraudulent returns.
- **Issuing victims Identity Protection ("IP") PINs.** An IP PIN is a six-digit number assigned to taxpayers who were identified as identity theft victims,

submitted required documentation, had their account issues resolved, and filed a tax return for tax year 2010. The PIN allows legitimate returns to bypass identity theft filters, prevents processing of fraudulent returns, and allows taxpayers to avoid delays in their Federal tax return processing. It is important to note that the PIN is specific to the tax year, a new PIN is issued every year, and the PIN should not be confused with the electronic signature "self-select" PIN.

### Online Identity Theft

The IRS does NOT initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, including text messages and social media channels.



Often, in cases of online identity theft, victims respond to online scams and unwittingly provide personal and financial information to phishers. To mitigate online fraud, the IRS works closely with registrars, hosting providers, and telecommunications providers to de-register malicious domains, remove malicious/fraudulent content, suspend email accounts, disable fax numbers, and report unregistered securities entities.

### Avoiding Identity Theft

The IRS recommends that taxpayers:

- Safeguard personal information; and
- Regularly check credit reports and other financial records.

To prevent online identity theft, taxpayers should:

- Watch out for phishing scams;
- Ensure their computers and other electronic devices are secure;

- Always use strong passwords; and
- Limit the amount of personal information accessible by others.

### Actions to Take When a Taxpayer Experiences Identity Theft

Taxpayers should:

- Contact their financial institutions and take appropriate action;
- Contact the three credit bureaus to place a fraud alert and get free copies of credit reports;
- File a police report with local law enforcement; and
- Contact the Federal Trade Commission. ([www.consumer.gov/idtheft/index.html](http://www.consumer.gov/idtheft/index.html))

If the identity theft is tax-related, taxpayers should:

- Contact the Identity Protection Specialized Unit ("IPSU") at 800-908-4490; and

- Submit Form 14039, Identity Theft Affidavit, available at [www.irs.gov](http://www.irs.gov), and all the required documentation to the IPSU.

If a taxpayer receives a suspicious IRS-related communication:

- Report the unsolicited email claiming to be from the IRS to [phishing@irs.gov](mailto:phishing@irs.gov); and
- Go to [www.irs.gov](http://www.irs.gov), scroll to the bottom of the homepage, and click "Report Phishing."

In addition, taxpayers who suspect that they are a victim of identity theft should immediately contact their accountant to discuss the treatment of future IRS tax filings.

Additional information on identity theft is available at [www.irs.gov](http://www.irs.gov). If you would like to discuss these issues further, please contact your J.H. Cohn engagement partner at 877-704-3500. ■

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