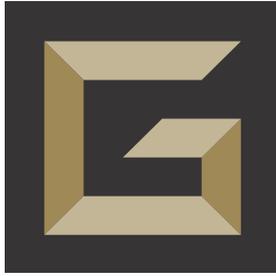

Advising Victims of Tax Identity Theft

Individual and Business

IRS Nationwide Tax Forum 2013

Revised July 12, 2013



GUNSTER

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Examples of Identity Theft Schemes

- Former Florida Hospital Employees Sentenced in Tax Refund Scheme, June 13, 2013.
- Florida Resident Sentenced for Identity Theft, June 12, 2013.
- Florida Man Sentenced for Tax Fraud, May 29, 2013.
- Florida Man Sentenced for Stealing Government Money, May 9, 2013.



Examples of Identity Theft Schemes (cont.)

- Internet Installer Sentenced for Hijacking Customer's Internet to Perpetrate Identity Theft Tax Scheme, May 7, 2013.
- Leader of Romanian-Based Tax Fraud Conspiracy Sentenced, April 12, 2013.



Startling Facts About Tax Identity Theft

- Getting ID theft cases resolved with IRS can take an average of six months.
- CPAs helping clients resolve ID theft cases with IRS are spending from six to ten or more hours on ID theft cases.
- IRS has 21 separate units working on various aspects of ID theft.
- Ripple effects: hold-ups on mortgage refinancing, student financial aid applications, Social Security may base Medicare premiums on bogus returns.

IRS Updates Web Information

July 9, 2013 IRS Announcement

“When we were alerted last week that a substantial number of Social Security numbers were posted on IRS.gov in forms filed by section 527 political organizations, the IRS decided out of an abundance of caution to temporarily remove public web access to the records.”

Tax Identity Theft Affects Low Income Individuals



Identity Theft Affects High Income Individuals, But Not Necessarily Donald Trump



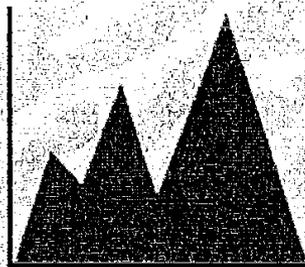
Tax Identity Theft Affects Businesses



Individual ID Theft Statistics

The tax-related identity theft crisis is growing at an alarming pace

IRS

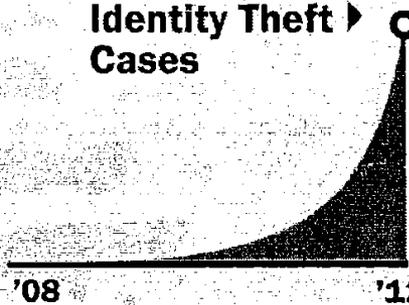


In FY 2012, the IRS's specialized ID theft unit saw a

78%
spike in identity theft cases

Taxpayer Advocate Service

Identity Theft Cases



Since FY 2008, TAS has seen a

650%
spike in identity theft cases, including a 60% increase from FY 2011 to FY 2012

As of Sept. 2012

650,000

identity theft cases within IRS remain unsolved



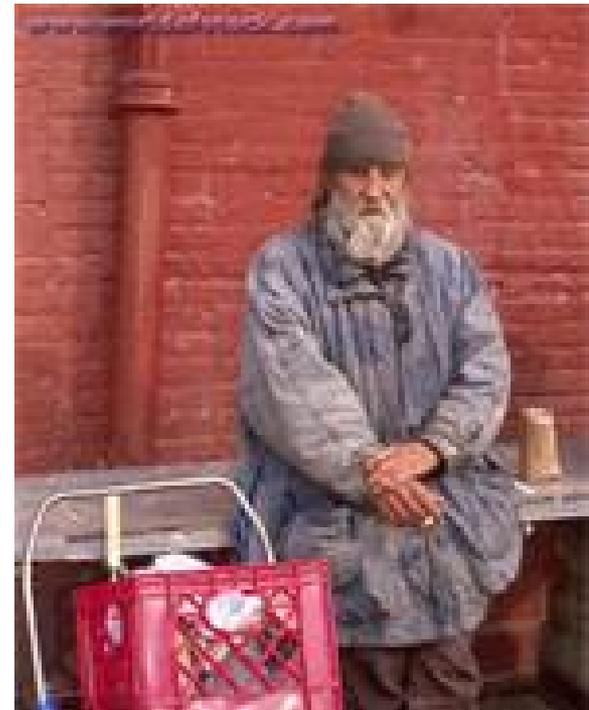
Identity Theft Definition

- Someone who uses an individuals personally identifying information to commit fraud.
 - **Persons name**
 - **Social Security Number**
 - **Credit Card Information**
 - **Driver's License Information**



What Happens To The Victim

- Depleted financial accounts
- Charges on their credit cards
- New loans in victim's name
- New credit cards in victim's name
- Tax return refunds



Worldwide Web Source Information

- Phishing – sending emails in an attempt to lure innocent victims to surrender their private information.
- Malware – placing fallacious codes to take over a hard drive.



Old Fashion Methods

- Stealing wallets
 - Stealing mail
 - Stealing garbage
 - Stealing laptops
- Pre-texting – use of deception to obtain information from institutions and government agencies with a goal of changing mail to another location.



Health Care Records Hospitals and Doctors commonly receive the following:

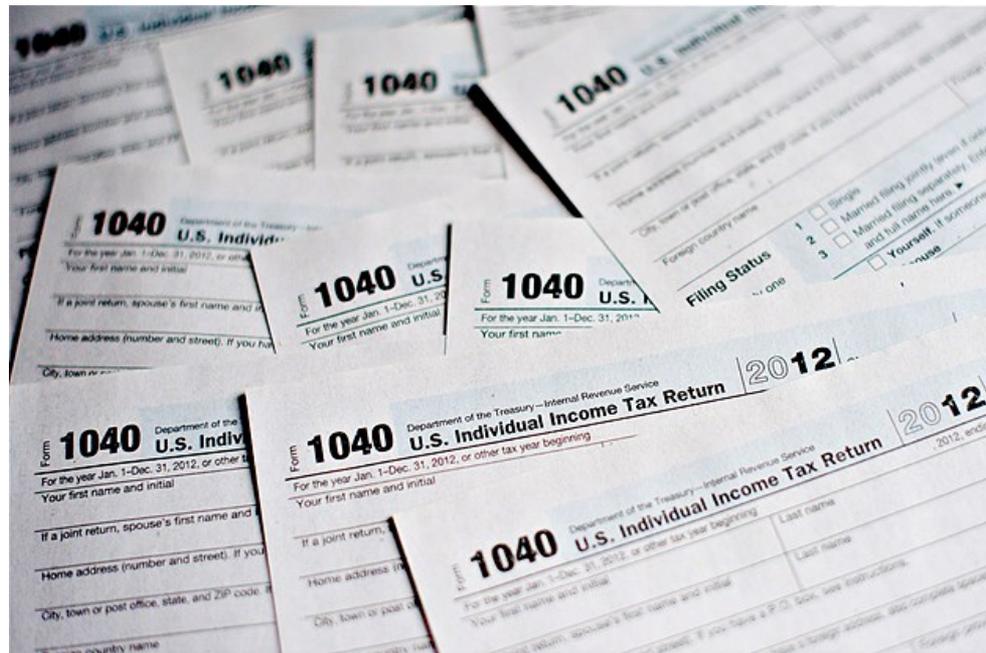
- Social Security Number
- Driver's License Number
- Date of Birth
- Address
- Names of family members
- Place of Employment



There have been many indictments of hospital staff for selling or giving such records to friends and family.

Tax Fraud Identity Theft

- Filing of false returns claiming refunds
- Using false employment tax records
- Abusive tax return preparer schemes



False Return Season

- Late January to early March
- Classes begin in December, both domestically and internationally (school for scoundrels)



False Return Methods

- False return will be filed early.
- False return must be filed prior to IRS matchup of W-2 information.
- Refund is made to direct deposit checking account or pre-paid debit card.
- Debit cards are used by thief or sold on the open market.
- Stolen information then sold to other thieves for use in other scams.

Phishing Examples

- Phony notices by Intuit Turbo Tax advising of discrepancies in tax return information.
- Bogus IRS emails:
 - Complete satisfaction survey and get \$80
 - Taxpayer is being penalized \$10,000 for failure to file return
 - Electronic tax return or payment has been rejected

Fraud Examples

- The Puerto Rican fraud, as Puerto Ricans file no income tax returns.
- False return filed for doctor showing \$40,000 in income and asks for refund. No refund given as the doctor owes IRS \$2,000,000 from prior years.
- Taxpayer on food stamps files for earned income credit refund. Return not accepted as prior false return previously filed.

Special Issues For Tax Professionals

- Licensing Boards require non-disclosure of client information
- Theft by employees
- Required to put preparer's EIN on returns, as well as PTIN
- EFIN is provided to each client with filing confirmation

EIN Identity Fraud

- Impersonation of entity (hijacking)
 - Creation of credit card processing accounts
 - Creation of false W-2s etc. to obtain tax refunds or benefits
 - Creation of bank loans

Business Hijacking

- Creation of similar named entity or changes address on dormant entity at Secretary of State
- Dun & Bradstreet uses address change from State records and shows new address on its report
- D & B report appears to check out; loan or credit is granted
- Resources:
 - Colorado Secretary of State, “Business Identity Theft Resource Guide”
 - National Association of Secretaries of State (NASS) Business ID Theft Task Force reports, www.nass.org

How To Get EINs

- W-2 forms sent to employees
- Secretary of State Documents
- SEC Reports
- IRS database for public charities



Business Identity Theft Resource Guide

A Guide to Protecting Your Business and
Recovering from Business Identity Theft

Business Identity Theft Resource Guide

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Business identity theft is on the rise

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January 15, 2013

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Business identity theft is on the rise

Lawyers need to be educated about business ID theft to protect themselves and their clients

By Mark D. Killian
Managing Editor

Sixty percent of businesses that experience identity theft fail within one year of the crime, according to the Florida Department of State's Division of Corporations.

That stark reality, coupled with an uptick in this relatively new type of crime, has spurred the division to alert businesses — including lawyers — to the threat and how to reduce the chances of falling prey to identity thieves.

"Business identity theft is essentially the same as personal identity theft, except the identity stolen is that of a company or other business entity, and the damage is usually much more severe," said Ricky Harper, director of the Division of Corporations, adding most business owners are unaware of the crime or ways to protect themselves from it.



Harper said the state first became aware of the rising problem of business identity theft in late 2011, when the National Association of Secretaries of State produced a white paper on the subject.

According to the NASS, state trends make it clear that criminals are working to exploit state filing systems and business registration websites by filing bogus reports with secretary of state offices or manipulating online business records in order to steal cash and property using fraudulently obtained lines of credit.

ID Theft and Tax Fraud Prevention Act Proposed to Protect Taxpayers

- Expedited refunds for identity theft victims.
- Single point of contact for identity theft victims.
- Enhancements to IRS PIN Program.
- Electronic filing opt out.
- Restrictions on ability to use prepaid cards for tax fraud.
- Limitation on multiple tax refunds to the same account.
- Restrictions on access to the Death Master File.

ID Theft and Tax Fraud Prevention Act (cont.)

- Prohibition and penalties on the display, sale or purchase of Social Security numbers.
- Increased criminal penalty for tax fraud through identity theft.
- Increased tax preparer penalty for improper disclosure or use of return information.
- Authority to transfer IRS appropriations for use for tax fraud enforcement.
- Accelerating transition to a real-time tax system that protects taxpayers and reduces fraud.

IRS Action to Prevent Fraud to Individuals

- What is the IRS Doing to Address Identity Theft?
- In FY 2013, the IRS changed its strategy for assisting identity theft victims, adopting a specialized approach where each department (or “function”) that deals with identity theft created a dedicated group of employees to work on those issues. Assigning identity theft cases to a small group of specially-trained employees allows them to quickly become experts in resolving these types of cases.
- Because identity theft cases are often very complex, they require adjustments by multiple functions.¹ The IRS has developed a transfer matrix outlining situations in which a case must be routed from one specialized function to another. The IRS believes that these occurrences will be minimal.

¹ An IRS task force found that up to 28 different functions may touch an identity theft case. IRS, Identity Theft Assessment and Action Group (ITAAG) Future State Vision and Supporting Recommendations 7 (Oct. 11, 2011)

IRS Preventative Measures

The IRS has developed a multi-faceted approach to detecting tax returns filed by identity thieves and preventing such associated refunds from being processed. For example, the IRS utilizes a series of identity theft filters designed to detect potentially fraudulent returns, and each year adjusts the filters as the IRS learns more about how the thieves operate. Through February 2013, the IRS stopped 361,187 tax returns by using these filters, an increase of 142 percent from the same period in 2012.³

The IRS also works cooperatively with banks and other financial institutions to prevent attempts by identity thieves to defraud the government. The IRS has a process in which private sector businesses, which often have developed their own algorithms to detect fraud, will alert the IRS of suspicious transactions. The IRS will then investigate the taxpayers involved and if it verifies fraudulent activity, will recoup the funds from the financial institution.⁴

³ IRS Identify Theft Advisory Council, *Identity Theft Status Updated* (Mar. 2, 2013).

⁴ IRS Identify Theft Advisory Council, *Identity Theft Status Updated* (Mar. 2, 2013).

IRS Preventative Measures (cont.)

To provide a greater level of security for taxpayers, the IRS issued identity protection personal identification numbers (IP PINs) to more than 600,000 identity theft victims whose identities and addresses it has verified. An IP PIN is a unique code that the taxpayer must use, along with his or her taxpayer identification number, to file electronically and bypass certain filters.

If a taxpayer who was issued an IP PIN attempts to e-file without that number, the IRS will not accept it and the taxpayer will need to file a paper return, which

IRS Preventative Measures (cont.)

will delay processing. In such situations, the IRS applies an indicator on a taxpayer's account that causes the return to be marked "unpostable" – meaning it will not be processed. Returns are also marked unpostable when they fail to pass a series of filters applied after a taxpayer's account is protected by an identity theft indicator. The IRS will not process these returns until the taxpayer is able to verify his or her identity with the IRS, either by phone or by correctly answering a series of questions via a web portal.

What is the IRS Doing to Address Identity Theft?

The National Taxpayer Advocate¹ has raised concerns about the new IRS approach. In particular, she believes that the IRS inadequately interviews identity theft victims when they first contact the IRS and further fails to identify multiple issues as it works cases. Based upon TAS's experience with identity theft cases over the years, transfers between functions should be much more common. The vast majority of identity theft cases worked by TAS involve multiple issues. To facilitate the transfer of multiple issue cases from one function to another, the National Taxpayer Advocate has long advocated for the need for a "traffic cop" that will guide the case through the bureaucracy and serve as the single point of contact with the victim. The traffic cop will prevent cases

1. Remarks of Christopher Lee, Senior Attorney Advisor, Taxpayer Advocate Service, prepared for the American Bar Tax Section, May 2013.

What is the IRS Doing to Address Identity Theft? (cont.)

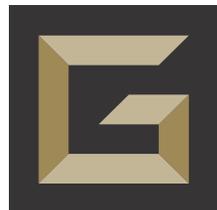
requiring involvement of multiple functions from getting “stuck” or lost in the process.²

² For a detailed discussion of tax-related identity theft, see National Taxpayer Advocate 2012 annual Report to Congress 42-67 (Most Serious Problem: The IRS Has Failed to Provide Effective and Timely Assistance to Victims of Identity Theft).

What is the IRS Doing to Address Identity Theft ? (cont.)

The National Taxpayer Advocate has also repeatedly proposed that the Identity Protection Specialized Unit (IPSU, the centralized IRS organization established in 2008 to assist identity theft victims) could fulfill this traffic cop role. IRS Wage & Investment has indicated that the IPSU will monitor all identity theft cases that require involvement of more than one function. For example, if a case requires the Accounts Management function to adjust the taxpayer's account, but also requires Collection to take some action, the IPSU will ensure that the case gets routed to the appropriate place in the agreed-upon time. Furthermore, upon receipt of the case the IPSU will conduct an initial global account review to identify potential issues, and a final review prior to case closure to determine if all issues have been addressed.

Thank you



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