

March 2, 2021

VITA/TCE Volunteer Tax Alert

VTA-2021-08, Identity Theft Involving Unemployment Benefits

Purpose:

To alert VITA/TCE volunteers about the appropriate actions to take when assisting a taxpayer who received a Form 1099-G, Certain Government Payments, for unemployment benefits they did not receive.

Background:

During 2020, millions of taxpayers were impacted by the COVID-19 pandemic through job loss or reduced work hours. Some taxpayers who faced unemployment or reduced work hours applied for and received unemployment compensation from their state. Under federal law, unemployment benefits are taxable income.

Scammers also took advantage of the pandemic by filing fraudulent claims for unemployment compensation using stolen personal information of individuals who had not filed claims. Payments made as a result of these fraudulent claims went to the identity thieves, and the individuals whose names and personal information were taken did not receive any of the payments.

States issue Forms 1099-G to taxpayers and to the IRS to report taxable income, such as refunds or unemployment benefits, they paid. Some taxpayers received Forms 1099-G for unemployment benefits they did not actually get because of identity theft.

Message to Volunteers:

- Instruct taxpayers who received a Form 1099-G for unemployment benefits they did not receive to contact the issuing state agency. They should request a revised Form 1099-G showing they did not receive these benefits. A corrected Form 1099-G showing zero unemployment benefits in cases of identity theft will help taxpayers avoid being hit with an unexpected federal tax bill for unreported income.
- If taxpayers are unable to obtain a timely, corrected form from states, volunteers should assist them in filing an accurate tax return reporting only the income they received.
- Taxpayers do not need to file a Form 14039, Identity Theft Affidavit, with the IRS regarding an incorrect Form 1099-G. The identity theft affidavit should be filed only if the taxpayer's e-filed return is rejected because a return using the same Social Security number already has been filed.
- If taxpayers are concerned that their personal information has been stolen and they want to protect their identity when filing their federal tax return, they can request an **Identity Protection Pin (IP PIN)** from the IRS.

Resources:

- **Publication 525**, Taxable and Nontaxable Income
- **Identity Theft Central**
- **IRS News Release 2021-24**, IRS offers guidance to taxpayers on identity theft involving unemployment benefits
- **Identity theft guidance regarding unemployment compensation reporting**

For additional questions, please talk to your site coordinator, partner or IRS SPEC relationship manager.

Thank you for volunteering and your dedication to top QUALITY service!