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Our Vision, as a public/private partnership, is a tax ecosystem where taxpayers can confidently file their taxes safely and securely.

MISSION STATEMENT

The Mission of the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center is to provide a secure platform via a sustainable public/private partnership, to facilitate information sharing consistent with applicable law, and analytics necessary to detect, prevent and deter activities related to stolen identity refund fraud.

ISAC PARTNERSHIP VISION

Our Vision, as a public/private partnership, is a tax ecosystem where taxpayers can confidently file their taxes safely and securely.
EXECUTIVE SUMMARY

The past year of the IDTTRF-ISAC saw a number of structural accomplishments that position the ISAC for ongoing growth and success, including:

- Graduation of the ISAC Platform from pilot status,
- Adoption of the ISAC Partnership’s first-ever strategic plan, and
- Recognition by Congress, through the Taxpayer First Act, of the ISAC as a tool in Identity Theft and Tax Refund Fraud Prevention.

First, movement of the ISAC Platform from pilot to operational status is confirmation that the work that was started as a voluntary initiative has proven its value, is sustainable, and will continue to grow in value into the future.

Second, the ISAC strategic plan, which aligns with the IRS’ strategic plan, sets forth the strategic framework and guiding principles for the vision and direction of the ISAC going forward.

And third, the Taxpayer First Act includes legislation that allows the IRS to share critical information into the ISAC for purposes of fighting IDTTRF. These provisions will allow the IRS to more effectively collaborate among the other members of the tax ecosystem, enhancing the ecosystem’s ability to improve its work in protecting the nation’s taxpayers from Identity Theft Tax Refund Fraud.

Furthermore, we expect that positive impacts of the Taxpayer First Act will benefit taxpayers at the state level as well. By working together, the members of the IDTTRF-ISAC Partnership develop and implement practices and procedures that improve the real-time detection and prevention of identity theft tax refund fraud in an environment where the criminals are constantly changing their tactics.

From an operational perspective, the ISAC Partnership’s accomplishments include:

- Collaboration among the ISAC members continues to grow, evidenced by year-over-year growth in Platform usage by over 31%.
- At the federal level, the ISAC directly protected approximately $3 million in identity theft-related refunds from being sent to criminals for calendar year 2018.¹

¹ This amount only reflects direct ISAC contribution and not the billions of dollars of refunds protected via other efforts.
OUR HISTORY

THE IRS SECURITY SUMMIT

In March 2015, the IRS convened a public-private partnership to respond to the growing threat of tax identity theft and stolen identity refund fraud. This group, called the IRS Security Summit, is made up of IRS officials, state tax administrators, and leading tax preparation firms, software developers, payroll and tax financial product processors, financial institutions, and tax professionals. The Summit has improved safeguards in the tax return submission process, keeping false returns out of the system, improving internal fraud filters, and preventing fraudulent refunds from being paid out. In 2016, Security Summit partners agreed there was a need for a formal public-private partnership where sharing could take place in a collaborative environment based on partner-agreed rules.

FORMATION OF THE IDTTRF-ISAC: THE PLATFORM AND THE PARTNERSHIP

In January 2017, the Identity Theft Tax Refund Fraud – Information Sharing Analysis Center (the “IDTTRF-ISAC” or simply, the “ISAC”) was formed, governed in equal partnership among the IRS, industry, and states. The IDTTRF-ISAC consists of two components: the Platform and the Partnership. The Platform is operated under the direction of the IRS, through its Federally Funded Research and Development Center (“FFRDC”). The FFRDC serves as the IDTTRF-ISAC’s Trusted Third Party (“TTP”). TTPs are critical in ISACs, in that they facilitate information-sharing among entities that would not otherwise do so. The Platform serves as the centralized information-sharing vehicle for the ISAC and includes controls to help ensure that sharing occurs in a manner that is consistent with applicable laws.

IDTTRF-ISAC TIMELINE

[Diagram showing timeline with numbered steps and milestones, such as:
1. IRS Security Summit forms
2. IRS announces plans for ISAC
3. ISAC kick-off meeting with 40 representatives from IRS, industry, states
4. Fraud simulation exercise conducted
5. ACTR1, CERCA2, and FFA3 endorse ISAC
6. Online platform launches with 18 participating organizations
7. ISAC Partnership Senior Executive Board established
8. FTA4, CCIA5 endorse ISAC
9. ISAC Platform transitions from pilot to operational
10. 72 participating organizations

1. American Coalition of Taxpayer Rights (ACTR)
2. Council for Taxpayer Revenue Communication Enhancement (CERCA)
3. Federation of Tax Administrators (FTA)
4. Computer & Communications Industry Association (CCIA)
The IRS began the Platform in “pilot” mode. The Platform graduated from pilot status in October 2018 and officially became an ongoing component of the IRS’ fraud prevention operations for the 2019 filing season. The ISAC has been recognized by the Treasury Inspector General for Tax Administration as a key component of the IRS’ identity theft tax refund fraud prevention efforts. Furthermore, the ISAC has received internal IRS awards for its innovative and collaborative approach to engaging stakeholders for the common good.

Most recently, the ISAC received a 2019 Gears of Government Award from the Treasury Department. The Gears of Government Award recognized the ISAC for preventing $3 million from being sent to fraudulent actors who had stolen individuals’ identities.

The Partnership is led by a Senior Executive Board, comprised of executive-level leaders throughout the tax ecosystem. The Board works to provide strategy and thought leadership to remove roadblocks to the collaborative efforts of the ISAC.

The IDTTRF-ISAC Partnership is an unprecedented collaborative effort that includes the IRS, the states, and the private sector that has added a new line of defense to protect the tax ecosystem and taxpayers. The Partnership works to provide thought leadership, address legal barriers, and create and maintain open channels of communication for the benefit of the taxpayers of our nation and the states.

YEAR IN REVIEW

During the past year, the IDTTRF-ISAC achieved significant organizational milestones. The graduation of the ISAC Platform out of pilot mode served as a catalyst to the Partnership’s first Strategic Plan, adopted in January 2019.

Furthermore, the value of the ISAC’s work was recognized through the enactment of ISAC-related provisions in the Taxpayer First Act, as discussed further below. Finally, the ISAC

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3 The ISAC received both the Wage & Investment Division Commissioner’s Award and the IRS Commissioner’s Award in 2017.
4 The Gears of Government Awards program is operated by the Office of Management and Budget to recognize individuals and teams across the federal workforce whose dedication supports exceptional delivery of key outcomes for the American people in the areas of mission results, customer service and accountable government. Note that the amount recognized as saved only reflects direct ISAC contribution and not the billions of dollars or refunds protected via other efforts. See https://www.performance.gov/gearawards/ (accessed August 7, 2019).
Partnership continues to advance along the measures highlighted in the metrics section below.

“As an endorsing partner involved with the ISAC since the inception, it has been fun to watch the growth in collaboration and we look forward to the continued collaborative growth through ongoing efforts such as pilots and enhanced industry leads so that the ISAC analytical capabilities can continue to be used for the betterment of all partners involved in the ISAC.”

-Federation of Tax Administrators

STRATEGIC PLAN

The ISAC Partnership adopted its first Strategic Plan in January 2019. The plan was designed to dovetail with the IRS Strategic Plan and align with its operation goals. The ISAC Partnership’s Strategic Goals, which serve as implementation steps toward the Partnership’s Mission and Vision, are as follows:

- Heighten taxpayers’ confidence in the nation’s tax systems by knowing that we are all working together to fight identity theft tax refund fraud.
- Protect the integrity of the tax ecosystem by preventing and deterring identity theft tax refund fraud.
- Collaborate with partners, endorsers and stakeholders proactively to improve prevention and detection of identity theft tax refund fraud.
- Cultivate a well-equipped, diverse, flexible and engaged cross-functional team throughout the tax ecosystem.
- Drive increased agility, efficiency, effectiveness and security of the tax ecosystem operations.

Establishment of the ISAC Partnership’s strategic goals provides a consistent direction for the tax ecosystem. This approach helps to ensure that the Partnership and the ecosystem as a whole are each aligned in the advancement of practices and techniques to prevent and detect identity theft tax refund fraud.

LEGISLATION

The Taxpayer First Act\(^5\) was signed into law on July 1, 2019. The Act specifically authorizes the IRS to participate in ISACs. This official recognition in law recognizes and supports the IRS’ collaborative approach to managing the identity theft tax refund fraud problems facing the nation. Furthermore, the Act enhances the IRS’ ability to share relevant information

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\(^5\) Taxpayer First Act, H.R. 3151, enacted as Public Law 116-25.
across the ecosystem, coupled with enhanced taxpayer protections on the use and subsequent sharing of the information. These law changes will improve the IRS’ ability to effectively collaborate within the tax ecosystem to protect our taxpayers.

We anticipate that positive impacts of the law will flow to taxpayers at the state level as well. By working together, the members of the IDTTRF-ISAC Partnership develop and implement practices and procedures that improve the real-time detection and prevention of identity theft tax refund fraud in an environment where the criminals are constantly changing their tactics.

“The ISAC is an important component in the continuing and evolving effort to prevent and combat identity theft tax refund fraud, and its importance will only continue to grow over time.”

-Endorsers letter dated March 5, 2018 to the Treasury Inspector General for Tax Administration from the American Coalition for Taxpayer Rights, the Council for Electronic Communication Advancement, the Federation of Tax Administrators, and Free File, Inc.

METRICS

The Risk Environment

The prevalence of data breaches and account takeovers across the country means that taxpayer information is available to criminals in increasing volumes. The criminal tax return often looks identical to the real taxpayers return. To eliminate identity theft tax refund fraud entirely, the IRS and revenue departments would need to wait until the all returns are filed and analyzed before issuing refunds.

However, many taxpayers depend upon their tax refunds as a source of forced savings. To minimize the risk of issuing fraudulent returns while at the same time addressing the need for timely refunds, the IRS and state departments of revenue use analytics and multiple data sources, including the ISAC, to identify as much fraud as possible before sending refunds.

The IDTTRF-ISAC Partnership Measurement Methodology

The ISAC currently measures its work in three categories:

- Levels of industry, state and IRS participation in the ISAC;
- Volume and quality of alert and information contributions that identify ecosystem threats; and
- Volume and quality of the ISAC’s data analysis in identifying suspected identity theft tax refund fraud.

The Partnership’s metrics are designed to measure activities within its purview. The metrics
seek to establish baseline levels of collaborative activity to evaluate the nimbleness of the ecosystem in detecting and communicating emerging schemes and threats. These baseline metrics feed into the substantive analytical metrics. At the end of the day, the ISAC’s work seeks to minimize the burdens on the real taxpayers while at the same time stopping identity theft tax refund fraud.

It is important to note that the ISAC does not comprehensively measure amounts of identity theft tax refund fraud stopped. Ownership of these measures resides with the IRS and the state tax and revenue departments. Furthermore, because detection of identity theft tax refund fraud requires an accumulation of data, the ISAC data is a key piece in the fraud puzzle, but often not the only piece necessary to make a final determination. Therefore, typical “but for” measurement methodologies underestimate the impact of ISAC data. The ISAC is evaluating metrics that better quantify the value of the ISAC when its data is one of many cumulative factors used detecting identity theft tax refund fraud.

Using the currently available methodologies, the IRS found that the ISAC directly protected about $3 million in fraudulent identity-theft federal refunds from being issued during calendar year 2018.

“The Metrics created by the ISAC Partnership have enabled ISAC entities to demonstrate to our senior executives the need for additional resources as we work together to address Identity Theft Tax Refund Fraud.”

-State Partner

_Anatomy of a Scheme: Illustration 1
Time is of the Essence_

Even though the ISAC does not currently have a comprehensive measure of amounts of identity theft tax refund fraud stopped, that information is a helpful guidepost in understanding the value of the ISAC to the tax ecosystem. This state illustration shows how what appears to be a small scheme can unravel into something larger.
Diligent investigation identified the scope of the scheme within less than a week, for the benefit of this state. This information was progressively shared within the ISAC for the benefit of all members.

**Member Engagement: Participation and Contribution**

*ISAC Members Share Their Varied Talents to Maximize the Ecosystem’s Collective Knowledge of Threats*

The ISAC exists to facilitate information sharing about incidents, patterns, tactics and emerging schemes in the tax ecosystem. The success of the ISAC depends upon relevant engagement throughout the tax ecosystem, and that engagement is measured through the participation and contribution metrics.

Member engagement is not a one-size-fits-all endeavor. To address the varied opportunities for engagement, the ISAC Partnership has adopted an engagement model that provides guidance as to areas where member involvement will add value to the work of the ISAC as a whole.
The engagement model provides examples of engagement that allow each member to tailor their activities within the ISAC to that member's unique insights and perspectives.

**ISAC ENGAGEMENT MODEL**

"I underestimated how valuable [the ISAC] would be – a community to share. A shoulder to lean on if other people are having the same problem...."

- Industry Partner

**Participation Highlights**

*Platform Usability is a Key to ISAC Success*

The participation metrics focus on measuring membership levels and the extent to which members are accessing the ISAC’s resources. These measures provide insights into the functionality and value of the ISAC as a whole. In particular, the participation metrics can help the TTP ensure usability of the Platform and continue to evolve the Platform's tools. During the 2019 tax season, usage of the Platform grew by twenty-nine percent over the
prior calendar year. Going forward, the ISAC expects that usage will continue to steadily grow.

The sustainability of the ISAC requires that members continuously work to cultivate and maintain a culture of engagement, trust and collaboration. This culture is fostered through the Partnership’s Analysts Community of Practice (the “ACoP”). Since inception of the ISAC, participation in the ACoP has increased by thirty-five percent.

**Contribution Highlights**

*Robust contribution by members allows analysts to put their heads together to unravel schemes more quickly.*

The contribution measures are the flip side of the participation coin. ISAC analysts from each sector share information, typically in the form of leads and alerts, that identify emerging threats and schemes on a real-time basis. Additionally, the ISAC Partnership works with the Platform to remove barriers for partners to contribute timely, actionable and clear alerts.

During January through March of 2019, ISAC members shared more actionable alerts than for the entire 2017 year. Furthermore, members sharing alerts grew by nineteen percent between calendar years 2018 and 2019, and members contribution of other data grew by thirteen percent for the same period. This growth in contribution improves the ISAC’s ability to curate data for the benefit of the tax ecosystem.

As noted earlier in this report, the ISAC anticipates that the recently-enacted Taxpayer First Act will improve the ability of the IRS to share information within the ISAC.
“Alerts are very helpful – we have found actionable data that help us stop [identity theft tax refund] fraud, and we are able to share key themes with the states.”

-IRS Partner

**Anatomy of a Scheme, Illustration 2: Multi-Partner Collaboration Yields Results**

As schemes evolve, it is typical for multiple partners to identify different components of an evolving scheme. The following illustration shows how the ISAC allows multiple partners to work together to quickly develop the framework of a scheme.

![Illustration of multi-partner collaboration](image)

When identity theft tax refund fraud is identified within the ecosystem sooner, the burden to the real taxpayer can be reduced.

**Analysis Highlights**

Each member of the ISAC Partnership has its own processes for identifying schemes and trends, and in the case of the IRS and state revenue agencies, confirming identity theft tax refund fraud. Identity theft refund fraud schemes are often complex and are continuously evolving. Furthermore, personal information of real taxpayers has been exposed through many major data breaches over the past several years. This means that the fraudulent return can look nearly identical to the real taxpayer’s return. The ISAC Platform is a tool that, when
coupled with a member’s internal processes, allows the member to better detect and address schemes in real time.

**The Platform Facilitates Curation of Data for the Membership**

The Trusted Third Party (TTP):

- Receives and analyzes data from ISAC participants and other sources.
- Provides anonymized, aggregated reports and visualizations that help members to better detect and stop identity theft refund fraud.
- Offers a secure platform to help users quickly find significant data anomalies.
- Supports users to help maximize the benefits of ISAC tools and analytic products.

**The Analysts Community of Practice**

A key factor in the year over year successes of the ISAC stems from the active engagement of the member analysts within the Analysts Community of Practice (“ACoP”). The vision of the ACoP is to serve as an engaged body of front-line analysts from IRS, states, and industry. The analysts share their ideas, knowledge, best practices, and concerns about identity theft with each other in a trusted partnership. The ACoP is led by a steering committee comprised of equal membership from each sector of the ISAC. Organizationally, the ACoP Steering Committee is a subcommittee of the Partnership’s Senior Executive Board.

“**When I miss a phone call I feel as if I’m not keeping up. [The ACoP] enhances our picture of what’s out there.**”

- State Partner

The ACoP comes together frequently, either in person or virtually to share insights of their experiences in their home organization. These sessions not only bring diversity of thought, but also create valuable relationships that enhance collaboration.
ISAC PARTNERSHIP LEADERSHIP

The IDTTRF-ISAC Partnership is led by a Senior Executive Board (the “SEB”). The SEB is a volunteer board that includes equal representation from IRS, the states, and industry. Activities of the SEB include:

- Providing guidance in strategic areas, including operating procedures, membership criteria, vision and mission;
- Communicating with senior leadership of the IRS, state revenue agencies and private-sector tax organizations;
- Developing and approving procedures, activities and communications by or on behalf of the ISAC; and
- Developing and sharing topics for study and analysis.

SENIOR EXECUTIVE BOARD CO-CHAIRS

Sharonne Bonardi, State Co-chair
Deputy Comptroller, State of Maryland

Todd Egaas, IRS Co-chair
Director, Criminal Investigation, Internal Revenue Service

Bernard F. McKay, Industry Co-chair
Chief Public Policy Officer, VP Global Corporate Affairs, Intuit, Inc.
GLOSSARY OF IMPORTANT TERMS

Alerts are issued by members within the ISAC’s secure environment to report any tax ecosystem threats. This is like a neighborhood listserv for the tax ecosystem, with immediate reports of breaches, compromised identification numbers, or other suspect data.

Leads identify refund fraud patterns, suspicious activity, and suspected fraud. Industry participants are required to submit secure “lead reports” to the IRS and states. The TTP aggregates and anonymizes the leads so that industry can work collaboratively with the IRS and states to bolster fraud detection and prevention. The tax ecosystem is only as strong as the weakest link in the system. Leads provide a comprehensive view of cyber threats across the ecosystem to help identify vulnerabilities and emerging cyber threats.

The Analysts’ Community of Practice (ACoP) is a forum where ISAC members share ideas, knowledge, best practices, and concerns related to the detection and prevention of identity theft fraud. These forums help facilitate a stronger network of analysts whose regular participation maximizes the collective knowledge across the IRS, tax industry and states.

The Trusted Third Party (TTP) is an essential component of any information-sharing center. TTPs facilitate information-sharing among entities where sharing otherwise wouldn’t occur – all to achieve a shared goal that protects the entire ecosystem. The IDTTRF-ISAC’s Trusted Third Party allows competitive and disparate entities in the tax industry, and federal and state taxing agencies to contribute information that defends the entire tax ecosystem from external threats.