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Nelson investigates tax identity theft

By Lauren Mayk

A tax fraud issue affecting dozens of Bay area taxpayers is getting attention in Washington.

Senator Bill Nelson gathered victims and Internal Revenue Service officials at a hearing on identity theft and tax fraud last week, a step Nelson says he expects to lay the groundwork for Congressional action on the problem.

"Victims of tax-related identity theft are the casualties of a system ill-equipped to deal with the growing proficiency and sophistication of today's tax scam artists," Nelson said.

A spokesperson in Nelson's office said the hearing was prompted in part by reports by News Channel 8.

The senator said that the ease of electronic filing, combined with the option of using debit cards for refunds and the low risk of criminal penalties, "has created in many respects the perfect crime."

More than 100 bay area taxpayers claim someone used their personal information to file a tax return. Some of them found out about it only after their own returns were rejected because a return had already been filed using their identity.

At the hearing, an IRS official confirmed the agency has identified more than 400,000 incidents of identity theft since 2008. She also said that the IRS has stopped almost a billion dollars worth of fraudulent refunds from going out, but that in the 2009 filing season about \$15 million in fraudulent refunds were issued.

One victim from New York who testified at the hearing said her information had been used to file returns in two different years.

"I have no faith right now that the IRS is doing anything to combat this issue," said Sharon Hawa.

IRS officials said they take the issue seriously and have been working to deal with the problem. They also noted the difficulty of dealing with savvy scammers.

"Every time we identify a scheme the perpetrator seems to be trying multiple other ways to get in and use that identity," said Beth Tucker, deputy IRS commissioner for operations support.

Nelson quizzed Tucker about a pilot program that gave pin numbers to about 56,000 taxpayers who are victims of identity theft. Those pin numbers would be used to file returns and – theoretically – prevent imposters.

"If this thing is working I think it's in the interest of the American taxpayer to get this thing off dead center and get it moving," Nelson said.

Tucker said the taxpayers who got pins were chosen at random and that results of the program should be available by September. Nelson asked her to return to meet with him about the results.

Another possible strategy highlighted during the hearing involves allowing taxpayers to turn off the e-file option.

"For some thieves, e-filing is the name of the game, you just go in and get what you can and then leave," said National Taxpayer Advocate Nina Olson. "And if you have to do paper, they won't necessarily follow that route."

Asked about the outcome of the hearing, an IRS spokesman said, "The IRS is committed to continue working cooperatively with Sen. Nelson on this important issue."