Bill Nelson's Taxpayer ID Theft Bill - Some Big Improvements and Some Shortcomings

November 14, 2013 - A report on taxpayer identity theft released earlier this month revealed that the IRS paid nearly $4 Billion in ID-theft-related fraudulent tax returns last year. While it will probably never be possible to completely eliminate this problem, there is little doubt that IRS could be doing a much better job of reducing the problem with a few simple tweaks to their procedures. A bill in the Senate (IDENTITY THEFT AND TAX FRAUD PREVENTION ACT OF 2013) sponsored by Sen. Bill Nelson (D-FL) would bring about some big improvements to the current system but it also has some glaring holes that need to be addressed.

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Taxpayer ID theft is a growing problem for the IRS. The crime occurs when someone obtains the personal information of a legitimate taxpayer and files a tax return claiming a large refund in their name. In most cases, the criminals involved file these returns very early in the filing season. When the victim files a legitimate tax return a little later on, he is informed that another return has already been processed in his name. The victim is then forced to prove his identity and that he is entitled to the tax return he filed for; an arduous process that can take months. Nelson's bill would help to address these issues.

If the bill does become law, it would require the IRS to provide ID theft victims their tax return within 90 days of their tax filing. It would also provide victims with a single point of contact in the IRS and allow them to prevent anyone from filing a tax return using their SSN electronically. Since approximately 80% of fraudulent tax returns involve electronic filing, this particular clause in the law could have a real impact. The law would also expand the program which allows the IRS to issue PIN numbers to ID theft victims.

Additionally, Nelson's bill would enhance certain privacy laws, limit the number of returns that could be deposited into a

single bank account and increase the penalties and fines associated with tax ID theft. Whether or not this last issue would be effective remains to be seen as many fraudulent filings originate outside of the United States.

While the bill does make some big improvements to current IRS procedures, there are some glaring holes in too.

The IRS PIN number program is weak at best. Currently only victims of ID theft can request a PIN from the agency. Once issued, the PIN is required in all interactions with the IRS. While the bill would expand the number of people eligible, it still only allows victims to get a PIN. The program would be far more effective as a preventative tool if anyone could request a PIN on a proactive basis. The current program is akin to closing the barn door after the horse is already out. Nelson's bill wouldn't change this.

Unfortunately, the most important improvement that the law could make is completely ignored in this legislation. Current law prohibits the IRS from notifying taxpayers when someone else is using their information to file a return. If the IRS would provide this information along with any address information associated with fraudulent returns, to the legitimate holder of the social security number involved, it would be possible for victims to turn the tables on the crooks. They could file police reports and seek to have the thieves arrested immediately. But this issue is completely unaddressed in this legislation.

We'll keep you posted on the progress of the bill and any amendments to it. Obviously, we are urging members of congress to amend the bill to cover the issues mentioned above.

byJim Malmberg
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