IRS Faces Mounting Backlog in Identity Theft Cases, Leaving Taxpayers Stranded

June 30, 2024 - The IRS is grappling with a growing crisis as the backlog of identity theft cases has surged to more than 500,000. This has left many taxpayers without refunds and waiting years for case resolutions. This alarming situation, highlighted in a recent report by National Taxpayer Advocate Erin Collins, reveals an average resolution time of over 22 months, severely undermining the IRSâ€™s ability to provide timely assistance to identity theft victims.

The Taxpayer Advocate Service, an independent body within the IRS led by Collins, publishes biannual reports to Congress to spotlight critical issues and propose solutions. The latest report underscores how the delays in resolving identity theft cases have worsened since they were first identified, exacerbated by an increasing influx of new cases and the reassignment of IRS staff to other tasks, such as answering seasonal phone inquiries.

When an identity thief files a fraudulent return using a taxpayer's sensitive information, the taxpayer must submit an identity theft affidavit and a paper return. The IRS then freezes the legitimate return while investigating the case Despite the IRSâ€™s efforts to address these issues by increasing staffing, the average resolution time remains unacceptable. Last year, the backlog was already at 484,000 cases with a 19-month resolution time. The latest report clearly shows that the problem is getting worse, not better.

The ramifications of these delays are profound. Taxpayers who fall victim to identity theft not only face the initial violation of their personal information but also endure prolonged financial uncertainty. Refunds are withheld for extended periods, which can have significant financial impacts, especially for those relying on these funds for essential expenses. Moreover, the frustration and stress of navigating an unresolved identity theft case compound the initial harm done by the identity thief.

Adding to the complexity, the IRSâ€™s overall service delivery has been criticized. In 2024, the agency managed to answer only 31 percent of nearly 40 million taxpayer calls, highlighting a critical gap in customer service. Senator Todd Young (R-Ind.) has voiced his constituents' frustrations, emphasizing the urgent need for the IRS to enhance its responsiveness and efficiency.

Collins has called for comprehensive reforms, including improvements to the IRSâ€™s e-filing system, better hiring practices, enhanced training, and clearer communication with taxpayers. These measures aim to streamline the process and reduce the backlog, ensuring that victims of identity theft receive the timely assistance they need.

Despite acknowledging some improvements, Collins remains cautiously optimistic about the IRS's future, particularly with the additional funding from the Inflation Reduction Act aimed at enhancing taxpayer services and modernizing IT infrastructure. However, significant challenges persist, and it is crucial for the IRS to intensify its efforts to meet taxpayer expectations and restore confidence in its ability to safeguard taxpayer rights and financial interests.
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As taxpayers await meaningful reforms, the pressure on the IRS to resolve these systemic issues continues to mount. The agency must prioritize resolving identity theft cases swiftly to mitigate the financial and emotional toll on affected taxpayers and uphold the integrity of its service commitments.