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April 10, 2013 — The U.S. Senate Special Committee on Aging on Wednesday will delve into ways to combat one of the fastest growing scams – identity thieves claiming other people's refunds.

As officials struggle to catch the thieves, and frustrated victims are having to wait six months to a year to get their stolen refunds back, the chairman of the Aging panel, has filed new legislation today to toughen enforcement and provide victims with relief from government red tape.

"When I hear about folks who've had their refund stolen three years in a row, that tells me the crooks are winning," said the panel's chairman, U.S. Sen. Bill Nelson (D-FL), referring to the case of Marci Hossli, a 57-year old Lake Worth, Florida resident who will testify before the panel. "What's more, these cases seem to keep accelerating with no apparent end in sight."

Other witnesses joining Hossli include: Detective Sal Augeri of the Tampa Police Department; Treasury Inspector General for Tax Administration J. Russell George; and, Kathleen Keneally, the Assistant Attorney General for the Justice Department's Tax Division.

Tax-related identity theft has risen more than 650 percent between 2008 and 2012, according to the IRS Taxpayer Advocate Service. Last May, an investigation by the U.S. Treasury Department's inspector general – requested by Nelson – found 1.5 million tax returns had been filed by identity thieves who claimed $5.2 billion in fraudulent tax refunds in the prior filing season. Senior citizens, along with the deceased, students, and low-income individuals who are not required to file are

IDENTITY THEFT AND TAX FRAUD PREVENTION ACT OF 2013

Section 1. Short title: Identity Theft and Tax Fraud Prevention Act of 2013

Section 2. Expedited refunds for identity theft victims. In 2012, the

average time necessary for the IRS to close identity theft cases was 196 days. According to the Taxpayer Advocate, the amount of time needed to resolve a case can be cut in half if the IRS adopts appropriate administrative reforms. The bill directs the Secretary to establish a plan of action for resolving and closing identity theft cases within 90 days.

Section 3. Single point of contact for identity theft victims. Victims of tax-related identity theft express frustration with the need to repeatedly contact the IRS regarding their case and having to explain their situation to a different IRS employee, who has no knowledge of the matter, each time they call. The bill directs the Secretary to ensure that an identity theft victim has a single point of contact at the IRS that tracks the case from start to finish.

Section 4. Enhancements to IRS PIN Program. The IRS anticipates issuing over 600,000 personal identification numbers (PINs) to identity theft victims in 2013. However, the PIN program still fails to protect all victims whose identities have been compromised because PINs are not issued until all tax account issues have been resolved. The bill directs the IRS: (1) to expand the existing PIN program to provide victims with a PIN earlier in the review process, and (2) to issue a report to Congress on the effectiveness of PIN program.

Section 5. Electronic filing opt out. More than 80 percent tax-related identity theft occurs through electronically filed tax returns. The IRS does not permit identity theft victims to "turn off" electronic filing. The bill would allow an individual filing an identity theft affidavit to direct the IRS not to process federal tax returns submitted

associated with prepaid debit cards and other vulnerable accounts distinguishable from those in which the issuer verifies the identity of the accountholder through more rigorous customer identification procedures. The bill also directs GAO to review and evaluate customer identification procedures used by the prepaid card industry.

Section 7. Limitation on multiple tax refunds to the same account. An investigation by the Treasury Inspector General identified at least 10 bank accounts that had each received more than 300 fraudulent tax refunds. The bill directs the Treasury Secretary to limit the number of refunds in a year that can be sent to an individual direct deposit account or mailing address.

TITLE 3: ADDING CRITICAL NEW PROTECTIONS TO SAFEGUARD SOCIAL SECURITY NUMBERS

Section 8. Restrictions on access to the Death Master File. Identity thieves exploit public access to the Social Security Death Master File (DMF) to easily acquire the Social Security numbers of recently deceased persons, which they then use to file fraudulent tax returns. The bill directs the Secretary of Commerce to restrict access to the DMF to certified persons that have a fraud prevention interest or other legitimate need for the information, and it establishes penalties for disclosure or misuse of the information.

Section 9. Prohibition on the display of Social Security account numbers on newly issued Medicare identification cards and communications provided to Medicare beneficiaries. The publication of Social Security numbers (SSNs) on Medicare identification cards and other Medicare documents puts millions of individuals at risk of identity theft. The bill requires the Medicare program to phase out the collection, use, and display of SSNs.

Section 10. Prohibition and penalties on the display, sale, or purchase of Social

RELATED IDENTITY THEFT

Section 11. Criminal penalty for tax fraud through identity theft. Tax-related identity theft is generally prosecuted under a tax provision related to fraud and false statements (section 7206). Because tax-related identity theft can cause extreme hardships for victims, in addition to loss of government revenue, a tougher penalty is appropriate. The bill increases the maximum penalty for tax-related identity theft from 3 years imprisonment and a $100,000 fine to 5 years imprisonment and a $250,000 fine. The bill clarifies that tax-related identity theft constitutes aggravated identity theft under federal criminal law, potentially adding 2 additional years to the sentence.

Section 12. Increased tax preparer penalty for improper disclosure or use of return information. Tax-related identity theft can occur when a paid tax return preparer sells, shares, or uses a client's tax return information for improper purposes. The penalties for fraudulent disclosure or use of a taxpayer's personal return information are too weak to deter potential criminals. The current law civil penalty is $250 per disclosure, capped at $10,000 per preparer in a calendar year. The current law criminal penalty is capped at $1,000 per conviction (and one year imprisonment). The bill increases the civil penalty to $1,000 per disclosure, capped at $50,000. It also increases the criminal penalty to a maximum of $100,000 per conviction.

Section 13. Authority to transfer Internal Revenue Service appropriations for use for tax fraud enforcement. The bill provides the IRS Commissioner with authority to transfer up to $10 million for tax fraud enforcement from amounts appropriated to other IRS accounts.

Section 14. Local Law Enforcement Liaison. State and local law enforcement agencies report difficulty obtaining the cooperation needed to aggressively pursue tax-related identity theft cases. The bill establishes a Local Law Enforcement Liaison (LLEL) within the Criminal Investigative Division of the IRS to administer information-

filed. The National Directory of New Hires (NDNH) is a database maintained by the Department of Health and Human Services. It includes timely employment data from W-4 forms, quarterly wage data from State and federal employment security agencies, and other valuable information. Access to the NDNH would improve the ability of the IRS to identify fraudulent returns at the time the return is processed. The bill includes a proposal from the President's budget authorizing the IRS to use the NDNH to administer federal tax laws.

Section 16. Plan of Action for a Real-Time Tax System. Accelerating information matching and creating a real-time tax system is a critical component of the long-run battle against tax-related identity theft. A real-time tax system would offer substantial benefits to taxpayers.

According to the Taxpayer Advocate, a real-time system will: (1) allow taxpayers to answer questions and address issues closer to the time of the transactions, (2) prevent taxpayers from facing IRS collection actions long after refunds have been spent, and (3) help taxpayer save money by avoiding the long-term accrual of penalties and interest. The proposed bill directs the Treasury Secretary to issue a report to Congress analyzing and outlining options and potential timelines for moving toward a tax system that reduces burdens on taxpayers and decreases tax fraud through real-time information matching.

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