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Internal Revenue Service Security Summit partners have provided an outline for tax professionals how they can assist clients who were victims of unemployment compensation fraud schemes that targeted state workforce agencies in 2020 and 2021.

The IRS, state tax agencies and the tax profession – working together as the Security Summit – reported that unemployment compensation fraud was one of the more common identity theft schemes that emerged in 2020 as criminals exploited the

presented a new opportunity to exploit the pain and financial hardships faced by Americans," said IRS Commissioner Chuck Rettig. "This particular scam is especially egregious because 23 million Americans were jobless or underemployed last year and desperately needed these benefits."

The U.S. Department of Labor's Inspector General estimated approximately $89 billion in unemployment compensation was lost in 2020 due to fraud.

Unemployment compensation is taxable income on federal taxes, although Congress waived the tax for 2020 for many people. States report compensation to the individual and to the IRS by using the Form 1099-G. Because of fraud and identity theft, many taxpayers received Forms 1099-G for compensation they did not receive. Some taxpayers received forms from multiple states.

This scam could affect 2021 returns next year as well as 2020 returns this year. Here are a few steps tax professionals should take to assist clients who are victims of the unemployment compensation fraud scheme:

1. File a Form 14039, Identity Theft Affidavit PDF, only if an e-filed tax return rejects because the client's Social Security number has already been used. Do not file the IRS Form 14039 to report unemployment compensation fraud to the IRS.
2. Report the fraud to state workforce agencies, and request a corrected Form 1099-G. Each state has its own process for reporting unemployment compensation fraud. The U.S. Department of Labor has created an information page with all state contacts and other information at DOL.gov/fraud.
3. File a tax return reporting only the actual income received. State workforce agencies may not be able to timely issue a corrected Form 1099-G. Even if the client has not received a corrected Form 1099-G, report only wages and income received and exclude any fraudulent claims.

4. Consider an IRS Identity Protection PIN. Clients receiving Forms 1099-G are

employees filing jobless claims, especially when it has no record of those employees.

Although unemployment compensation is taxable, the American Rescue Plan Act of 2021 allows an exclusion of unemployment compensation of up to $10,200 for individuals for taxable year 2020. In the case of married individuals filing a joint Form 1040 or 1040-SR, this exclusion is up to $10,200 per spouse.

To qualify for this exclusion, adjusted gross income (AGI) must be less than $150,000. This threshold applies to all filing statuses.

The exclusion may ease the burden on many fraud victims. However, victims who received Forms 1099-G from multiple states may have fraud claims that exceed that exclusion amount. Clients should retain any records of fraud reports to states.

Benefits