



Treasury Inspector General for Tax Administration Office of Audit

STOLEN AND FALSELY OBTAINED EMPLOYER IDENTIFICATION NUMBERS ARE USED TO REPORT FALSE INCOME AND WITHHOLDING

Issued on September 23, 2013

Highlights

Highlights of Report Number: 2013-40-120 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The IRS issues Employer Identification Numbers (EIN•) to identify taxpayers' business accounts. Individuals attempting to commit tax refund fraud commonly steal or falsely obtain an EIN to file tax returns reporting false income and withholding. TIGTA estimates that the IRS could issue almost \$2.3 billion in potentially fraudulent tax refunds based on these EINs yearly (or about \$11.4 billion over the next five years).

WHY TIGTA DID THE AUDIT

This audit was initiated because perpetrators of fraud are using stolen or falsely obtained EINs to submit tax returns with false income and withholding documents to the IRS for the sole purpose of receiving a fraudulent tax refund. The overall objective of this review was to assess the IRS's process for issuing EINs and its process to identify stolen or falsely obtained EINs used to report income and withholding.

WHAT TIGTA FOUND

The IRS has developed processes to both authenticate individuals applying for an EIN and to ensure that there is a valid business reason to obtain an EIN.

TIGTA identified 767,071 Tax Year 2011 electronically filed individual tax returns with refunds based on falsely reported income and withholding. There were 285,670 EINs used on these tax returns:

- 277,624 were stolen EINs used to report false income and withholding on 752,656 tax returns with potentially fraudulent refunds issued totaling more than \$2.2 billion.
- 8,046 were falsely obtained EINs used to report false income and withholding on 14,415 tax returns with potentially fraudulent refunds issued totaling more than \$50 million.

The IRS has developed a number of processes to prevent fraudulent refunds claimed using stolen and falsely obtained EINs. However, the IRS does not have the third-party Form W-2, *Wage and Tax Statement*, information needed to make significant improvements in its detection efforts.

Nonetheless, the IRS does maintain data that could increase its ability to detect tax returns with false income and withholding associated with stolen or falsely obtained EINs.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS update fraud filters to identify potentially fraudulent tax returns. The IRS should also develop processes to identify individuals who submit tax returns that report income and withholding using the EIN of a closed business.

In their response to the report, IRS officials agreed with our recommendations and plan to update the IRS's fraud filters.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2013reports/201340120fr.pdf>