

GAO Highlights

Highlights of [GAO-14-633](#), a report to congressional requesters.

Why GAO Did This Study

Identity theft tax refund fraud is a persistent, evolving threat to honest taxpayers and tax administration. It occurs when an identity thief files a fraudulent tax return using a legitimate taxpayer's identifying information and claims a refund.

GAO was asked to review IRS's efforts to combat IDT refund fraud. This report, the first of a series, examines (1) what IRS knows about the extent of IDT refund fraud and (2) additional actions IRS can take to combat IDT refund fraud using third-party information from, for example, employers and financial institutions.

To understand what is known about the extent of IDT refund fraud, GAO reviewed IRS documentation, including the *Identity Theft Taxonomy*. To identify additional actions IRS can take, GAO assessed IRS and SSA data on the timing of W-2s; and interviewed SSA officials and selected associations representing software companies, return preparers, payroll companies, and others.

What GAO Recommends

GAO recommends that Congress should consider providing Treasury with authority to lower the annual threshold for e-filing W-2s. In addition, IRS should fully assess the costs and benefits of shifting W-2 deadlines, and provide this information to Congress. IRS neither agreed nor disagreed with GAO's recommendations, and it stated it is determining how these potential corrective actions align with available resources and IRS priorities.

View [GAO-14-633](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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IDENTITY THEFT

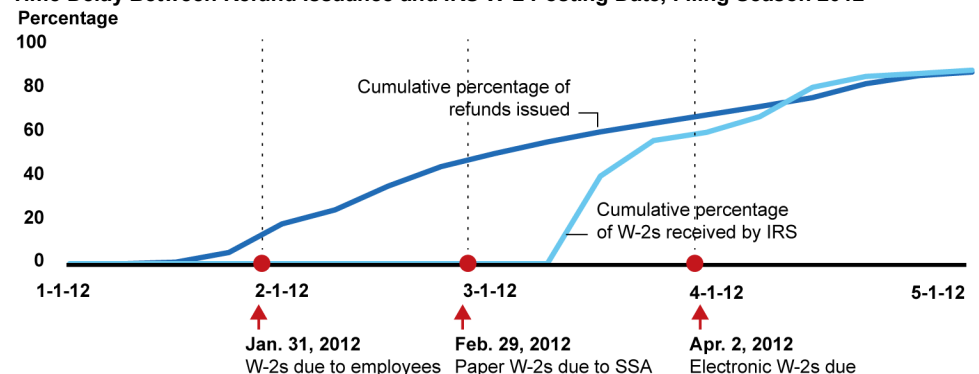
Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud

What GAO Found

Based on preliminary analysis, the Internal Revenue Service (IRS) estimates it paid \$5.2 billion in fraudulent identity theft (IDT) refunds in filing season 2013, while preventing \$24.2 billion (based on what it could detect). The full extent is unknown because of the challenges inherent in detecting IDT refund fraud.

IDT refund fraud takes advantage of IRS's "look-back" compliance model. Under this model, rather than holding refunds until completing all compliance checks, IRS issues refunds after conducting selected reviews. While there are no simple solutions, one option is earlier matching of employer-reported wage information to taxpayers' returns before issuing refunds. IRS currently cannot do such matching because employers' wage data (from Form W-2s) are not available until months after IRS issues most refunds. Consequently, IRS begins matching employer-reported W-2 data to tax returns in July, following the tax season. If IRS had access to W-2 data earlier—through accelerated W-2 deadlines and increased electronic filing of W-2s—it could conduct pre-refund matching and identify discrepancies to prevent the issuance of billions in fraudulent refunds.

Time Delay Between Refund Issuance and IRS W-2 Posting Date, Filing Season 2012



Source: GAO analysis of IRS data. | GAO-14-633

Accelerated W-2 deadlines. In 2014, the Department of the Treasury (Treasury) proposed that Congress accelerate W-2 deadlines to January 31. However, IRS has not fully assessed the impacts of this proposal. Without this assessment, Congress does not have the information needed to deliberate the merits of such a significant change to W-2 deadlines or the use of pre-refund W-2 matching. Such an assessment is consistent with IRS's strategic plan that calls for analytics-based decisions, and would help IRS ensure effective use of resources.

Increased e-filing of W-2s. Treasury has requested authority to reduce the 250-return threshold for electronically filing (e-filing) information returns. The Social Security Administration (SSA) estimated that to meaningfully increase W-2 e-filing, the threshold would have to be lowered to include those filing 5 to 10 W-2s. In addition, SSA estimated an administrative cost savings of about \$0.50 per e-filed W-2. Based on these cost savings and the ancillary benefits they provide in supporting IRS's efforts to conduct more pre-refund matching, a change in the e-filing threshold is warranted. Without this change, some employers' paper W-2s could not be available for IRS matching until much later in the year, due to the additional time needed to process paper forms.