

**HEARING BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES**

“The 2017 Tax Filing Season”



**Testimony of
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April 26, 2017

Washington, D.C.

TESTIMONY
OF
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before the
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Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, thank you for the opportunity to provide a status report on the 2017 Filing Season¹ as well as on identity theft and its impact on the Internal Revenue Service (IRS) and taxpayers.

The Treasury Inspector General for Tax Administration (TIGTA) was created by Congress in 1998 and is mandated to ensure integrity in America’s tax system. It provides independent audit and investigative services to improve the economy, efficiency, and effectiveness of IRS operations. TIGTA’s oversight activities are designed to identify high-risk systemic inefficiencies in IRS operations and to investigate exploited weaknesses in tax administration. TIGTA plays the key role of ensuring that the approximately 83,000 IRS employees² who collected more than \$3.3 trillion in tax revenue, processed more than 244 million tax returns, and issued more than \$400 billion in tax refunds during Fiscal Year (FY) 2016,³ have done so in an effective and efficient manner while minimizing the risk of waste, fraud, and abuse.

TIGTA’s Office of Audit reviews all aspects of Federal tax administration and provides recommendations to improve IRS systems and operations; ensure the fair and equitable treatment of taxpayers; and detect and prevent waste, fraud, and abuse in tax administration. The Office of Audit places an emphasis on statutory coverage required

¹ The period from January 1 through mid-April when most individual income tax returns are filed.

² Total IRS staffing as of January 7, 2017. Included in the total are approximately 16,200 seasonal and part-time employees.

³ IRS, *Management’s Discussion & Analysis, Fiscal Year 2016*.

by the IRS Restructuring and Reform Act of 1998 (RRA 98)⁴ and other laws, as well as on areas of concern raised by Congress, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other key stakeholders.

In this section of my testimony, I will briefly discuss the status of the 2017 tax return Filing Season and the IRS's progress in detecting and resolving identity-theft issues, including providing assistance to those who are victims of identity theft.

STATUS OF THE 2017 FILING SEASON

The annual tax return filing season is a critical time for the IRS, as this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. During Calendar Year (CY) 2017, the IRS expects to receive approximately 152 million individual income tax returns (approximately 17 million paper-filed and 134.3 million electronically filed (e-filed)). The IRS plans to process individual income tax returns at five Wage and Investment Division Submission Processing sites⁵ during the 2017 Filing Season. In addition, the IRS expects to provide assistance to millions of taxpayers via telephone, e-mail, website, social media, and face-to-face assistance. The IRS began accepting and processing individual tax returns on January 23, 2017, as scheduled. As of April 7, 2017, the IRS received approximately 103.6 million tax returns – 95.5 million (92.1 percent) were electronically filed (e-filed) and 8.2 million (7.9 percent) were filed on paper. The IRS has issued 80.3 million refunds totaling more than \$228.9 billion.

One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes and of changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once it has identified these, the IRS must revise the various affected tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices.

⁴ Pub. L. No. 105-206, 112 Stat. 685 (1998) (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁵ IRS Submission Processing sites in Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper-filed and e-filed tax returns. Sites in Andover, Massachusetts, and Philadelphia, Pennsylvania, will process only e-filed tax returns.

For the 2017 Filing Season, tax law changes include the continued implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010⁶ (collectively referred to as the Affordable Care Act or ACA), and those provisions of the Protecting Americans from Tax Hikes Act of 2015 (PATH Act)⁷ specifically intended to reduce fraudulent and improper refundable credit claims. The PATH Act modifies the filing dates for income and withholding documents to January 31st⁸ and includes a number of provisions referred to as “program integrity provisions” that were intended to reduce fraudulent and improper payments for the Earned Income Tax Credit (EITC),⁹ Child Tax Credit (CTC),¹⁰ Additional Child Tax Credit (ACTC),¹¹ and American Opportunity Tax Credit (AOTC).¹²

For example, the law mandates that no refund based on claims for the EITC or the ACTC may be made to a taxpayer before February 15th, which will provide the IRS with additional time to review refund claims based on the EITC and ACTC at the time tax returns are processed, to validate income reported in support of the amount claimed. In addition, the PATH Act includes provisions to prevent EITC, CTC, ACTC, and AOTC claims by individuals filing tax returns for years prior to when a Taxpayer Identification Number was issued. The majority of the program integrity provisions were effective January 1, 2016, and affect the processing of Tax Year (TY) 2016 returns.

TIGTA is in the process of evaluating the IRS’s actions to implement key provisions of the PATH Act and plans to issue our final report later this calendar year. To date, our work has found that the IRS has held refunds as required for returns with an EITC or ACTC claim and has released those returns as required if they were not identified for additional review. In addition, IRS management informed us that all EITC and ACTC claims will be verified against Forms W-2, *Wage and Tax Statement*, data to identify claims that have unsupported income. Those that are identified as potentially

⁶ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

⁷ Consolidated Appropriations Act of 2016, Pub. L. No. 114-113, Div. Q, (2015).

⁸ Previously, employers who filed paper Forms W-2 were not required to file these forms until February of each year. Employers who e-file Forms W-2 had until the end of March each year to file.

⁹ The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.

¹⁰ A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.

¹¹ The ACTC (the refundable portion of the Child Tax Credit) is used to adjust the individual income tax structure to reflect a family’s reduced ability to pay taxes as family size increases.

¹² A partially refundable Federal tax credit used to help parents and college students offset the costs of college.

fraudulent will be addressed as part of the IRS's fraud prevention programs. The remaining returns with an income discrepancy will be addressed as part of the IRS's overall Questionable Refund Program.¹³ In September 2014, TIGTA identified 677,000 TY 2012 tax returns for which third-party Forms W-2 were not sent to the IRS by the employer for either the taxpayer and/or spouse listed on the tax return. These tax returns claimed EITCs totaling more than \$1.7 billion.

In response to the January 20, 2017, Affordable Care Act Executive Order directing Federal agencies to exercise authority and discretion available to them to reduce potential burden on taxpayers, the IRS changed its processes and procedures on February 3, 2017. These changes will now allow electronic and paper-filed tax returns to be accepted for processing in instances in which taxpayers do not indicate their health care coverage status. At the start of the filing season, processes and procedures were developed to reject e-filed tax returns from taxpayers that did not report full-year insurance coverage, claim an exemption from coverage or self-report a Shared Responsibility Payment (SRP).¹⁴ For those taxpayers that filed a paper tax return, the IRS would hold their tax return and correspond with the taxpayer. If the taxpayer did not respond or provide adequate documentation, the IRS would assess the SRP.

As of April 13, 2017, the IRS processed 3.9 million tax returns that reported nearly \$18.5 billion in the Premium Tax Credits¹⁵ that were either received in advance, or claimed at the time of filing. As of April 6, 2017, approximately 2.9 million taxpayers reported a SRP for a decrease of 30.2 percent from the prior year. However, the amount of SRPs reported increased 12.5 percent over the prior year to more than \$1.9 billion. It should be noted that, by statute, the amount of the SRP increases each year.¹⁶

¹³ The Questionable Refund Program is a nationwide multifunctional program designed to identify fraudulent returns, to stop the payment of fraudulent refunds, and to refer identified fraudulent refund schemes to Criminal Investigation field offices.

¹⁴ A payment based on each month that individuals or their dependents are without Minimum Essential Coverage and do not qualify for an exemption.

¹⁵ A refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Affordable Insurance Exchange.

¹⁶ The maximum Shared Responsibility Payment increased significantly from TY 2015 to TY 2016 and will continue to increase as the payment is indexed for inflation. For example, the family maximum increased from \$975 in TY 2015 to \$2,085 in TY 2016.

INCREASED DEPENDENCE ON TECHNOLOGY-BASED ASSISTANCE SERVICES

As they have in past filing seasons, taxpayers have multiple options to choose from when they need assistance from the IRS, including assistance through the toll-free telephone lines,¹⁷ face-to-face assistance at the Taxpayer Assistance Centers (TAC) or Volunteer Program sites, and self-assistance through IRS.gov and various other social media channels (e.g., Twitter, Facebook, and YouTube). The IRS is continuing its trend to depend more on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The IRS notes that this approach allows it to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction. By using this approach, the IRS believes that it is able to improve its service to taxpayers by addressing and resolving more complex matters, such as assistance to identity theft victims and people with tax account issues.

The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS has been actively steering taxpayers to its website as the best source for answers to their tax questions. The IRS reports 276.1 million visits to IRS.gov this filing season as of April 8, 2017. Taxpayers can also interact with the IRS using IRS2Go, which is a mobile application that lets taxpayers access information and a limited number of IRS online tools. As of April 14, 2017, the IRS reports that the IRS2Go mobile application had 4.5 million active users. In addition, the IRS uses various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of April 14, 2017, there have been 1,152,040 new views of IRS YouTube videos and a total of 160,621 Twitter followers.

However, as we have reported, the risk of unauthorized access to tax accounts increases as the IRS expands its focus on delivering online tools. The increasing number of data breaches in the private and public sectors means more personal information than ever before is available to unscrupulous individuals. Many of these data are detailed enough to enable circumvention of most authentication processes. For example, in March 2017, the IRS announced that it was deactivating its online Data Retrieval Tool due to privacy concerns and to protect sensitive taxpayer data. The IRS Data Retrieval Tool allows students and parents to access their adjusted gross income (AGI) information from the IRS to complete the Free Application for Federal Student Aid (FAFSA) by transferring the data directly into their FAFSA application form from the IRS

¹⁷ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

web site. Identity thieves may have used personal information of individuals which they obtained outside the tax system to start the FAFSA application process form in an attempt to secure the AGI tax information through the Data Retrieval Tool. TIGTA is conducting a joint investigation of this exploitation with IRS Criminal Investigation and the Department of Education Inspector General. In addition, TIGTA is planning to initiate an audit to review this issue.

It is critical that the methods the IRS uses to authenticate individuals' identities provide a high level of confidence that tax information and services are provided only to individuals who are entitled to receive them. The IRS's goal is to eventually provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts, and corresponding digitally with the IRS.

In November 2015, TIGTA reported that, although the IRS recognizes the growing challenge it faces in establishing effective authentication processes and procedures, it had not established a Service-wide approach to managing its authentication needs.¹⁸ As a result, the level of authentication that the IRS uses for its various services was not consistent. The existence of differing levels of authentication assurance among the various access methods increased the risk of unscrupulous individuals accessing and obtaining personal taxpayer information and/or defrauding the tax system.

In response to TIGTA recommendations, the IRS has undertaken a number of steps to provide for more secure authentication, including strengthening application and network controls. However, we continue to have concerns about the IRS's logging and monitoring abilities over all connections to IRS online systems. We are currently assessing the IRS's efforts to improve its authentication. This includes evaluating whether the IRS has properly implemented secure eAuthentication in accordance with Federal standards for public access to IRS online systems and has effectively resolved identified control weaknesses. We expect to issue the final report in September 2017.

TRADITIONAL SERVICES CONTINUE TO BE ELIMINATED OR REDUCED

During the 2017 Filing Season, the IRS has continued to increase its toll-free telephone level of assistance. As of April 8, 2017, taxpayers had made approximately 44.6 million total attempts to contact the IRS seeking help to understand the tax law and

¹⁸ TIGTA, Ref. No. 2016-40-007, *Improved Tax Return Filing and Tax Account Access Authentication Processes and Procedures Are Needed* (Nov. 2015).

meet their tax obligations and 31.9 million net attempts¹⁹ were made by taxpayers to contact the IRS by calling the various customer service toll-free telephone assistance lines. As of April 8, 2017, the IRS reports that 16 million calls had been answered with automation, and telephone assistors had answered nearly 8.4 million calls and provided a 78.6 percent Level of Service²⁰ with a 6.7 minute Average Speed of Answer. The Level of Service for the 2016 Filing Season was 72 percent. The IRS forecasts a 75 percent Level of Service for the 2017 Filing Season.

Besides telephone assistance, each year many taxpayers also seek assistance from one of the IRS's 376 TAC walk-in offices. Although the IRS reports that it has 376 TACs for the 2017 Filing Season, 24 TACs are not open because they have not been staffed. The IRS estimates that the number of taxpayers it will assist at its TACs will continue to decrease this fiscal year. The IRS plans to assist approximately 3.4 million taxpayers at the TACs in Fiscal Year 2017, approximately a 23.6 percent decrease from Fiscal Year 2016. The IRS indicated that budget cuts and its strategy of appointment service at the TACs, along with continued promotion of alternative service options, will result in the reduction of the number of employees available to assist taxpayers at the TACs.

However, the IRS has implemented initiatives to better assist those individuals seeking assistance from a TAC. For example, in CY 2015, the IRS began providing services at selected TACs by appointment, in an attempt to alleviate long lines that sometimes occur at many TACs and to help ensure that taxpayers' issues are resolved. The IRS reports that, as of April 8, 2017,²¹ IRS employees answered over 1.8 million calls resulting in approximately 803,000 appointments at a TAC.

The IRS also offers Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at a remote TAC. For the 2017 Filing Season, the IRS is offering Virtual Service Delivery at 28 partner site locations, which is a decrease from the previous year when this service was offered at 35 locations.²² The IRS reports that as of April 8, 2017,²³ nearly 1,500 taxpayers have used the service. Finally, the IRS has an initiative to co-locate staff with the Social

¹⁹ Total call attempts represent calls received during open and after hours. Total net call attempts represent calls received during open hours.

²⁰ The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.

²¹ For Fiscal Year 2017 – October 1, 2016, through April 8, 2017.

²² For the 2017 Filing Season, the IRS is no longer offering Virtual Service Delivery at IRS locations. Access to this service is only available through external partner locations.

²³ For Fiscal Year 2017 – October 1, 2016, through April 8, 2017.

Security Administration to better assist taxpayers. For the 2017 Filing Season, the IRS has placed employees in four Social Security Administration locations. TIGTA is planning a follow-up audit to assess the IRS's efforts to expand customer service options to taxpayers seeking face-to-face assistance.

DETECTION AND PREVENTION OF IDENTITY THEFT

Identity-theft tax refund fraud occurs when an individual uses another person's or business's name and Taxpayer Identification Number to file a fraudulent tax return for the purpose of receiving a fraudulent tax refund. Identity theft continues to remain on the IRS's list of "Dirty Dozen" top tax scams. To address the scam, the IRS continues to take steps to more effectively detect and prevent the issuance of fraudulent refunds resulting from identity-theft tax return filings.

Since May 2012, my office has issued a number of reports that address the IRS's efforts to detect and prevent the filing of fraudulent individual and business tax returns by identity thieves, as well as the IRS's efforts to assist victims. In July 2012,²⁴ TIGTA issued its first report on our assessment of IRS efforts to detect and prevent fraudulent tax refunds resulting from identity theft. We reported that the impact of identity theft on tax administration is significantly greater than the amount that the IRS detects and prevents. For example, our analysis of TY 2010 tax returns identified approximately 1.5 million undetected individual tax returns that had the characteristics of identity theft confirmed by the IRS, with potentially fraudulent tax refunds totaling in excess of \$5.2 billion.

Our ongoing audit work shows that the IRS is making progress in detecting and resolving identity-theft issues and providing victim assistance. We have continued to perform follow-up reviews evaluating the IRS's efforts to improve detection processes, including its implementation of TIGTA recommendations. Most recently, we reported in February 2017²⁵ that IRS efforts are resulting in improved detection of identity-theft individual tax returns at the time returns are processed and before fraudulent tax refunds are released. For example, the IRS reported in its October 2016 Identity Theft Taxonomy Analysis that, for TY 2014, it had detected and prevented approximately \$12 billion in identity theft refund fraud.

²⁴ TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).

²⁵ TIGTA, Ref. No. 2017-40-017, *Efforts Continue to Result in Improved Identification of Fraudulent Tax Returns Involving Identity Theft; However, Accuracy of Measures Needs Improvements* (Feb. 2017).

For the 2017 Filing Season, the IRS is using 197 identity-theft filters to identify potentially fraudulent individual tax returns and prevent the issuance of fraudulent tax refunds. These filters incorporate criteria based on characteristics of confirmed identity-theft tax returns, including characteristics such as amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if the individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of March 25, 2017, the IRS reported that it had identified and confirmed 38,728 fraudulent tax returns and prevented the issuance of \$316.1 million in fraudulent tax refunds as a result of the identity-theft filters.

To prevent fraudulent tax returns from entering the tax processing system, the IRS continues to expand its processes to reject e-filed tax returns and prevent paper tax returns from posting. For example, as of April 17, 2017, the IRS locked approximately 33.5 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and the prevention of a paper-filed tax return from posting to the Master File if the Social Security Number (SSN) associated with a locked tax account is used to file a tax return. According to the IRS, as of March 31, 2017, it had rejected approximately 17,461 fraudulent e-filed tax returns and, as of April 13, 2017, it had stopped 3,268 paper-filed tax returns from posting to the Master File.

In addition, in response to concerns raised by TIGTA regarding multiple refunds going to the same address or bank account, the IRS now uses a clustering filter tool to group tax returns based on characteristics that include the address, zip code, and bank routing numbers. For the tax returns identified, the IRS uses criteria designed to ensure that legitimate taxpayers are not included. Tax returns identified are withheld from processing until the IRS can verify the taxpayer's identity. As of April 6, 2017, the IRS reports that, using this tool, it has identified 92,497 tax returns and prevented the issuance of approximately \$444.8 million in fraudulent tax refunds.

The IRS recognizes that new identity-theft patterns are constantly evolving and that, as a result, it needs to continuously adapt its detection and prevention processes. These evolving identity-theft patterns affect not only individuals, but also businesses. The IRS defines business identity theft as creating, using, or attempting to use a business's identifying information without authority, in order to claim tax benefits. In September 2015, we reported that the IRS recognized the growing threat of business related identity theft and, in response, was implementing processes to detect identity

theft on business returns at the time tax returns are processed.²⁶ These efforts included conducting a *Business Identity Theft Project* to detect potential business identity theft relating to the filing of Forms 1120 reporting overpayments and claiming refundable credits.

However, TIGTA also found that the IRS is not using data that it has readily available to proactively identify potential business identity theft. For example, the IRS maintains a cumulative list of suspicious Employer Identification Numbers (EIN) that it has determined to be associated with fictitious businesses. In response to TIGTA's recommendations, the IRS is expanding its filters to identify business identity theft. For the 2017 Filing Season, the IRS is using 25 identity theft filters to identify potentially fraudulent business tax returns and prevent the issuance of fraudulent tax refunds. TIGTA is planning a follow-up audit to assess the IRS's efforts to expand on its processes and procedures to detect business identity theft.

While the IRS's identification and detection strategies have led to many notable improvements, it recognizes the need to continue to explore other initiatives that would assist with its overall detection and prevention efforts. These initiatives include a collaborative effort among IRS officials, representatives from leading tax preparation firms, software developers, payroll and tax financial product processors, and representatives from the State Departments of Revenue to discuss common challenges and ways to leverage collective resources and efforts for identity theft detection and prevention. Additionally, the IRS obtains leads about potential identify-theft tax returns from State tax agencies via its *State Suspicious Filer Exchange Initiative*, and is conducting a pilot initiative with select payroll providers to test the feasibility of using a verification code to authenticate Form W-2 data at the time tax returns are processed.

IRS ASSISTANCE TO VICTIMS OF IDENTITY THEFT

Tax-related identity theft adversely affects the ability of innocent taxpayers to file their tax returns and timely receive their tax refunds, often imposing significant financial and emotional hardships. Many taxpayers learn that they are a victim of tax-related identity theft when they attempt to file their electronic tax return and the IRS rejects it because someone else (an identity thief) has already filed a return using the same SSN. Individuals can also learn that they are victims of employment-related identity theft if they receive a notification from the IRS of an income discrepancy between the amounts reported on their tax returns and the amounts employers reported to the IRS. This can

²⁶ TIGTA Ref. No. 2015-40-082, *Processes Are Being Established to Detect Business Identity Theft; However, Additional Actions Can Help Improve Detection* (Sept. 2015).

occur when an innocent taxpayer's stolen identity is used by someone else to gain employment. It can cause a significant burden, due to the incorrect computation of taxes and Social Security benefits based on income that does not belong to the taxpayer.

TIGTA has reported that the IRS does not always effectively provide assistance to taxpayers who report that they have been victims of identity theft, which also causes an increased burden for those victims. Specifically, TIGTA reviews have identified long delays in case resolution and account errors, and have found that not all tax-related identity-theft victims receive Identity Protection Personal Identification Numbers (IP PIN).²⁷ For example, in March 2015,²⁸ we reported that victims continue to experience long delays while waiting for the IRS to resolve their cases and issue their refunds. Our report also found that IRS employees did not correctly resolve taxpayer accounts, resulting in a delayed issuance of refunds to some victims or in some victims receiving an incorrect refund amount.

In July 2015, the IRS created the Identity Theft Victim Assistance (IDTVA) Directorate to combine into one directorate the skills of employees working tax-related identity-theft cases in multiple functions. The goal is to improve the taxpayer's experience when working with the IRS to resolve his or her tax-related identity-theft case. Approximately 1,300 employees work in the IDTVA Directorate to resolve identity-theft cases. TIGTA's current review²⁹ of cases closed from August 1, 2015, through May 25, 2016, identified improvements in case-closure timeframes and a reduction in case closing errors in comparison to our prior audit completed before the IDTVA Directorate was created. The IRS's efforts to centralize operations under a unified leadership, along with its enhanced procedures and processes, have contributed to the improvements identified since our prior audit. We plan to issue our final report in May 2017.

To provide relief to tax-related identity-theft victims, the IRS began issuing IP PINs to eligible taxpayers in FY 2011. For Processing Year (PY) 2016, the IRS issued more than 2.7 million IP PINs to taxpayers for use in filing their tax returns. In

²⁷ An IP PIN is a six-digit number assigned to taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their SSNs to file fraudulent Federal income tax returns.

²⁸ TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

²⁹ TIGTA, Audit No. 201640015, *Identity Theft Victim Assistance Directorate*, report scheduled for May 2017.

March 2017, TIGTA reported that some process improvements are needed.³⁰ Specifically, TIGTA found that taxpayer accounts were not always consistently updated to ensure that IP PINs were generated for taxpayers as required. For example, the IRS did not generate IP PINs for more than 2 million taxpayers for whom the IRS resolved an identity-theft case by confirming that the taxpayer was a victim. This results from inconsistent processes and procedures when closing resolved identity-theft cases. Without the required marker on their accounts to generate an IP PIN, these taxpayers will experience delays when subsequent tax returns are filed.

In August 2016, we reported that, during the period February 2011 to December 2015, the IRS identified almost 1.1 million taxpayers who were victims of employment-related identity theft, but who were not notified of that fact.³¹ During this audit, the IRS announced that it would begin notifying newly identified victims of employment identity theft in January 2017. The notification letter describes steps the taxpayers could take to prevent further misuse of their personal information, including reviewing their earnings with the Social Security Administration to ensure that their records are correct. Because this letter provides victims with useful information and assistance, we recommended the IRS issue it to all victims, including those whose identity was stolen prior to January 2017. However, the IRS responded that, after the first year of its new systemic notification process, it will evaluate the results and determine an appropriate course of action with respect to the previously identified potential victims. TIGTA is currently conducting a review to assess the IRS's actions to notify victims of identity theft.³²

We have an ongoing audit that is evaluating the IRS's processes to identify and mark victims' tax accounts and to notify the Social Security Administration so that individuals' Social Security benefits are not affected by imposters who are misusing their identities to gain employment.³³ TIGTA's work to date has found that IRS processes are not sufficient to identify all employment identity-theft victims. In addition, IRS processes do not identify employment identity theft when processing paper tax returns, nor does the IRS have a process to notify the Social Security Administration of employment identity theft when both the victim's name and SSN are used by imposters to gain employment. TIGTA expects to issue its report in May 2017.

³⁰ TIGTA, Ref. No. 2017-40-026, *Inconsistent Processes and Procedures Result in Many Victims of Identity Theft Not Receiving Identity Protection Personal Identification Numbers* (Mar. 2017).

³¹ TIGTA, Ref. No. 2016-40-065, *Processes Are Not Sufficient to Assist Victims of Employment-Related Identity Theft* (Aug. 2016).

³² TIGTA, Audit No. 201740033, *Notification Letters to Victims of Employment Identity Theft*.

³³ TIGTA, Audit No. 201640028, *Employment Related Identity Theft – Returns Processing*, report scheduled for May 2017.

TELEPHONE IMPERSONATION SCAM

Since the fall of 2013, a significant amount of our Office of Investigations' workload has consisted of investigating a telephone impersonation scam in which more than 1.9 million intended victims have received unsolicited telephone calls from individuals falsely claiming to be IRS or Department of the Treasury employees. The callers demand money under the pretense that the victim owes unpaid taxes. To date, over 10,300 victims have purportedly paid more than \$55 million to these criminals.

The telephone impersonation scam continues to be one of TIGTA's top priorities; it has also landed at the top of the IRS's "Dirty Dozen" tax scams. The numbers of complaints we have received about this scam have cemented its status as the largest, most pervasive impersonation scam in the history of our agency. It has claimed victims in every State.

Here is how the scam works: the intended victim receives an unsolicited telephone call from a live person or from an automated call dialer. The caller, using a fake name and sometimes a fictitious IRS employee badge number, claims to be an IRS or Treasury employee. The scammers use Voice over Internet Protocol technology to hide their tracks and create false telephone numbers that show up on the victim's caller ID system. For example, the scammers may make it appear as though the calls are originating from Washington, D.C., or elsewhere in the United States, when in fact they may be originating from a call center located in India.

The callers may even know the last four digits of the victim's SSN or other personal information about the victim. The caller claims that the intended victim owes the IRS taxes and that, if those taxes are not paid immediately, the victim will be arrested or charged in a lawsuit. Other threats for non-payment include the loss of a driver's license, deportation, or loss of a business license. They often leave "urgent" messages to return telephone calls and they often call the victim multiple times.

According to the victims we have interviewed, these scammers then demanded that the victims immediately pay the money using Apple iTunes® gift cards, Target gift cards, prepaid debit cards, wire transfers, Western Union payments or MoneyGram® payments in order to avoid being immediately arrested. They are typically warned that if they hang up, local police will come to their homes to arrest them immediately. Sometimes the scammers also send bogus IRS e-mails to support their claims that they work for the IRS. By the time the victims realize that they have been scammed, the funds are long gone.

TIGTA has made several arrests in connection with this scam and has numerous investigations underway. In July 2015, in one of the largest prosecutions on this scam that we have had to date, an individual pled guilty to organizing an impersonation scam ring. He was sentenced to over 14 years of incarceration and ordered to forfeit \$1 million. In October of 2016, after an extensive three-year investigation, TIGTA, the Department of Justice and the Department of Homeland Security announced the indictment of 56 individuals and five call centers located in India. Although the investigations and prosecutions have reduced the number of scam calls being placed by over 90 percent, we are still receiving reports that between 5,000 and 10,000 people are receiving calls each week.

In addition to the criminal prosecutions, to thwart scammers using robo-dialers, we have created and instituted an “Advise and Disrupt” strategy. The strategy involves cataloguing the telephone numbers that have been reported by intended victims. We then use our own automated call dialers to make calls to those telephone numbers to advise the scammers that their activity is criminal and to cease and desist their activity. Utilizing this technique, we have placed more than 142,000 automated calls back to the scammers. We are also working with the telephone companies to have the scammers’ telephone numbers shut down as soon as possible. Of the 1,160 telephone numbers that have been reported by victims, we have successfully shut down 94 percent of them, some of them within one week of the number’s being reported to us.

TIGTA is also publishing those scam related telephone numbers on the Internet. This provides intended victims an additional tool to help them determine if the call is part of a scam. All they have to do is type the telephone number in any search engine, and the response will indicate whether the telephone number has been identified as part of the impersonation scam. These efforts are producing results: our data show it now takes hundreds of calls to defraud one victim, whereas in the beginning of the scam it took only a double digit number of attempts.

Further, TIGTA is engaged in public outreach efforts to educate taxpayers about the scam. These efforts include publishing press releases, granting television interviews, issuing public service announcements, and providing testimony to Congress. The criminals view this scam as they do many others; it is a crime of opportunity. Unfortunately, while we plan on arresting and prosecuting more individuals, the scam will not stop until people stop paying the scammers money. Our best chance at defeating this crime is to educate people so they do not become victims in the first place. Every innocent taxpayer we protect from this crime is a victory.

PRIVATE DEBT COLLECTION

In 2015, a law was enacted that mandated the IRS's use of private collection agencies (PCAs) to collect certain "inactive receivables."³⁴ Certain inventories were specifically excluded from the definition of inactive receivables.³⁵ TIGTA initiated an audit soon after the enactment of the legislation to evaluate the IRS's establishment of policies, procedures, and other infrastructure necessary to operate this program, as well as to assess the IRS's efforts to mitigate risks to the program.³⁶ We have identified numerous concerns during our audit, including the IRS's lack of commitment to assist taxpayers concerned that the PCAs are part of an impersonation scam as well as our concerns related to the IRS's process for receiving taxpayer complaints about PCAs. In addition, TIGTA is planning a future audit related to the operations of the program, as well as a review evaluating the PCA contractors' performance.

Further, TIGTA's Office of Investigations provided the IRS with insight on how the widespread IRS impersonation scam might impact the Private Debt Collection program. Specifically, based on what TIGTA learned during its investigation of the impersonation scam, the Office of Investigations provided the IRS with different ways it could consider notifying taxpayers about the program and that their accounts have been assigned to the PCAs. In addition, the Office of Investigations has also provided integrity and safety briefings to the PCAs' employees. TIGTA will closely monitor incoming impersonation complaints involving the PCAs, and we will work take appropriate action and notify the IRS, the PCAs and the public if we identify an impersonation scheme growing within the Private Debt Collection program.

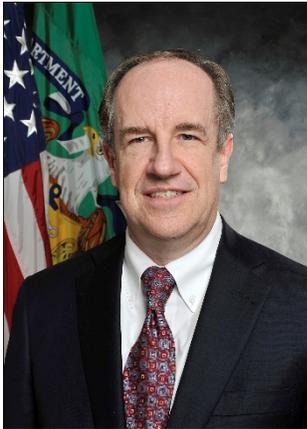
We at TIGTA take seriously our mandate to provide independent oversight of the IRS in its administration of our Nation's tax system. Accordingly, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively.

³⁴ Fixing America's Surface Transportation Act, Pub. L. No. 114-94, Div. C, Title XXXII, § 32102, 129 Stat. 1312, 1733-36 (2015), codified in Internal Revenue Code (I.R.C.) Section (§) 6306. The term "inactive receivables" means: receivables removed from active inventory due to inability to locate the taxpayer; inventory in which one third of the collection statute of limitations has expired; or assigned inventory in which more than 365 days have passed since contact with the taxpayer occurred.

³⁵ I.R.C. § 6306(d) excludes inventory that is subject to a pending or active offer-in-compromise or installment agreement; is classified as an innocent spouse case; or involves a taxpayer identified as deceased; under the age of 18; in a designated combat zone; a victim of tax-related identity theft; is currently under examination, litigation, criminal investigation, or levy; or is currently subject to a proper exercise of a right of appeal.

³⁶ TIGTA, Audit No. 201630029, *Planning and Implementation of the IRS's Private Debt Collection Program*, report scheduled for September 2017.

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, thank you for the opportunity to share my views.



Michael E. McKenney
Deputy Inspector General for Audit
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Mike McKenney serves as the Deputy Inspector General for Audit for the Treasury Inspector General for Tax Administration (TIGTA). He leads a nationwide audit function consisting of 270 staff members who strive to promote the economy, efficiency, and effectiveness of tax administration.

The Audit program's reports and recommendations to the Internal Revenue Service (IRS) have focused on improving tax administration and addressing the IRS's management challenges in the areas of data and employee security, computer modernization, tax law compliance and complexity, human capital, and improper and erroneous payments.

Prior to this, Mike served as the Assistant Inspector General for Audit (Returns Processing and Account Services) for TIGTA, where he was responsible for providing audit oversight of IRS operations related to the preparation and processing of tax returns and the issuing of refunds to taxpayers. This includes customer service activities, outreach efforts, tax law implementation, taxpayer assistance, accounts management, notices, submission processing, and upfront compliance such as the Frivolous Returns Program and the Questionable Refund Program.

Mike served in various managerial positions with TIGTA, covering a broad range of IRS areas including the IRS Oversight Board, Agency-Wide Shared Services, Chief Human Capital Office, Office of Appeals, Taxpayer Advocate Service, Office of Research and Analysis, and the Office of Professional Responsibility. Mike also opened and managed TIGTA's Denver field office for the Office of Audit. He began his Federal auditing career in 1992 with the IRS Inspection Service in Los Angeles. Mike graduated from California State University, Fullerton with a B.A. in Business (Accounting).