

*The Spread of Tax Fraud by Identity Theft: A Threat to
Taxpayers, a Drain on the Public Treasury*

Hearing before the Senate Committee on Finance
Subcommittee on Fiscal Responsibility and Economic Growth

Chairman Bill Nelson

Opening Statement
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Welcome, today is the first of several hearings of the newly created Senate Finance Subcommittee on Fiscal Responsibility and Economic Growth.

The subcommittee is charged with examining how major revenue and expenditure policies affect our economy and the prospects for long-term growth. The subcommittee's jurisdiction also extends to management of the public debt and Treasury Department operations. Broadly speaking, the subcommittee is concerned with the efficient allocation and management of taxpayer dollars.

The Fiscal Responsibility and Economic Growth Subcommittee will look at big picture trends related to spending, revenue, and deficits, as well as narrower issues that involve government waste and inefficiency in programs or agencies that fall under the jurisdiction of the Finance Committee.

Which brings us to the topic of today's hearing.

Even in the best of years, the income tax filing process is an unpleasant and unwelcome event for the millions of taxpayers required to navigate the ins and outs of our terrifyingly complex tax code.

But for an increasing number of innocent taxpayers, the initial preparation of an income tax return may be just the beginning of an extended nightmare that can continue for months or even years.

Victims of tax-related identity theft are the casualties of a system ill-equipped to deal with the growing proficiency and sophistication of today's tax scam artists.

Just since 2008, the IRS has identified 470,000 incidents of identity theft affecting more than 390,000 taxpayers. That number is truly shocking. While the IRS reports it has stopped over a billion dollars in fraudulent refund claims, there is no reliable estimate of how much it has disbursed to criminals, scam artists, and other fraudsters.

For individual taxpayers, a Social Security number is the key to unlocking and accessing the federal tax system. At one time, Social Security numbers had a sole purpose, facilitating participation in the Old Age, Survivors, and Disability Insurance Program. But in today's modern, wired world, Social Security numbers are shared with little thought almost any time a private or public entity requests a unique, exclusive number to identify and track a customer or client. In short, the keys to the tax system have been copied many times over.

It should come as no surprise, then, when our tax system is bombarded with sham tax returns that use stolen names and Social Security numbers to claim fraudulent refunds.

The ease with which scam artists can readily file electronic tax returns, the availability of prepaid debit cards and other hard-to-trace options for the delivery of tax refunds, and the low risk that criminal sanctions or penalties will be imposed, have created, in many respects, the perfect crime.

But for the victims caught in the middle of these schemes, tax-related identity theft imposes extraordinary burdens and economic hardship, as we will hear from our first panel of witnesses.

Taxpayer victims spend countless hours obtaining the necessary documents to prove who they are. Inconsistent messages and conflicting instructions from customer service agents at the IRS can worsen the situation. Innocent taxpayers whose identities have been stolen frequently find themselves in a confusing and frustrating form of bureaucratic ping pong.

Last month, following several recent reports of tax-related identity theft schemes in Florida, I asked the Treasury Inspector General for Tax Administration to launch a new investigation into this issue. That work is underway, and I look forward to his findings.

Also, I have been working with several of my colleagues to strengthen an information-sharing program to crack down on tax scams by prison inmates, which often involve stolen identities. Legislation to extend that program will be needed, and I will be working to get that done.

The purpose of our hearing is to investigate the growing problem of tax fraud through identity theft. First, we will hear from taxpayers who have fallen victim to complex, identity-related tax scams. Their stories are heart-wrenching.

The second panel, which includes the Taxpayer Advocate, the director of tax issues at the Government Accountability Office, and the Deputy IRS Commissioner, will explore the scope and magnitude of identity theft in the tax system and examine the laws, regulations, and administrative practices in place to prevent the processing of fraudulent tax returns and protect victims.

The hearing testimony will help guide the development of new legislation to crack down on tax fraud and shield victims from further hardship.

I fully expect our hearing today to lay the groundwork for Congressional action and generate novel ideas for a legislative initiative to aggressively combat the growing problem of tax-related identity theft.