



For Immediate Release  
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## **SENATORS INVESTIGATE IDENTIFY THEFT, TAX FRAUD**

*Baucus, Grassley aim to develop strategies for limiting counterfeit tax returns*

*Washington, DC* – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Republican Member Chuck Grassley (R-Iowa) are asking the Government Accountability Office (GAO) to investigate the growing problem of tax fraud related to identity theft, and how it contributes to the tax gap – the gulf between Federal taxes legally owed and actually paid each year. The Senators’ letter is aimed at identifying what procedures the IRS currently follows to curb identity theft and subsequent tax fraud, and how these measures can be improved. Portions of the tax gap strategy crafted by Treasury at Baucus’s request include efforts to fight tax fraud. The Senators said today that tackling identity theft must be an integral part of the Department’s effort to stop legally owed taxes from going unpaid.

**“Like all Americans, the IRS needs to be aware of the dangerous consequences of identity theft,”** said Baucus. **“Innocent taxpayers who are victims of identity theft should not be burdened with delayed refunds and red tape while the IRS is sending fraudulent refunds to the thieves who have stolen their identities. The IRS should be taking all possible precautions to ensure that it is not refunding false tax claims. Federal dollars should be used to pay for priorities like education and health care, not sent to identity thieves by the IRS.”**

Grassley said, **“Identity theft is a concern across the country. Tax forms contain sensitive information, so taxpayers need to have confidence that the IRS is part of the solution, not part of the problem, on identity theft.”**

The Finance Committee has jurisdiction over tax policy. The text of the senators’ letter is follows here.

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August, 28 2007

The Honorable  
David M. Walker  
Comptroller General of the United States  
U.S. Government Accountability Office  
441 G Street N.W.  
Washington, D.C. 20548

Dear Mr. Walker:

Over the years, various sources, including the Government Accountability Office (GAO), have characterized identity theft as the fastest growing type of crime in the United States. During a recent hearing before this Committee, we heard disturbing testimony about how easily taxpayer information could be wrongfully obtained and then misused for fraudulent purposes. Due to the importance of protecting taxpayer information and to prevent false refunds, it is critical that the Internal Revenue Service (IRS) has systems to detect and deter identify theft and processes to address the issues of innocent taxpayers whose identities have been abused. It also is important for the IRS to expand awareness to help taxpayers prevent their personal information from being vulnerable to abuse.

Because of the need to monitor and curtail the increased growth and negative consequences of identity theft, we are asking the GAO to answer the following questions:

- What is the extent of identity theft related tax fraud, especially refund fraud, in terms of tax dollars and numbers of taxpayers affected, and to what extent are false refunds recovered by the IRS?
- What are the IRS's current policies and processes for preventing and detecting identity theft, as well as for assisting innocent taxpayers affected by identity theft? For example, does the IRS examine returns containing social security number and individual taxpayer identification number mismatches for potential identity theft?
- Are there business processes or information systems used by others, including federal agencies, state governments or private firms, that the IRS could use to cost-effectively prevent or detect additional identity theft and better assist affected taxpayers?  
To what extent could the IRS more effectively coordinate with other state and federal agencies to detect and deter identity theft?
- To what extent do employers report more wages on the Form W-3 than on the Form 941 and does the IRS pursue those employers? To what extent does the use of stolen or false social security numbers contribute to the tax gap by creating information return mismatches that prevent the IRS from determining whether the income shown has been reported?

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With respect to this review, the Chairman is authorizing the GAO, pursuant to Section 6103(f)(4) of the Internal Revenue Code, to have access to the necessary tax information to perform this work. He expects your designated representatives will have access to all relevant IRS files, records, and returns for these purposes and will comply with all the restrictions that protect taxpayer information.

We are requesting that the GAO keep Committee staff apprised of its progress. Please contact [staff] with matters concerning this study.

Sincerely,

Max Baucus  
Chairman

Charles Grassley  
Ranking Member

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