

I. The IRS Has Improved at Detecting Identity Theft and Assisting Victims, But Victims with Multiple Tax Issues Still Lack One IRS Contact Person to Oversee All Aspects of Their Cases

Stolen Identity Cases Still Top the List of TAS Receipts.

In general, tax-related identity theft (IDT) occurs when an individual intentionally uses the personal identifying information of another person to file a false tax return with the intention of obtaining an unauthorized refund. Through improved filters, the IRS detected and stopped the release of refunds on more than 3.6 million returns it suspects were filed by identity thieves in the 2014 filing season (through May 31).¹ In addition, the IRS has expanded the use of its Identity Protection Personal Identification Number (IP PIN) program,² which allows IDT victims to protect their accounts in future years. As a result of these efforts, the IRS has seen a significant reduction in its IDT case inventory. At the end of May 2014, the IRS had 398,121 identity theft cases with taxpayer impact (excluding duplicates) in its inventory, down from 689,802 in May 2013, a decrease of 42 percent.³

Stolen identity is still by far the most common reason taxpayers seek help from TAS.

One barometer of the effectiveness of the IRS's IDT prevention efforts is the Taxpayer Advocate Service's (TAS) level of stolen identity receipts. After years of steady growth, these cases are finally declining.⁴ Through May of fiscal year (FY) 2014, TAS received 30,302 stolen identity cases, representing 21 percent of all receipts.⁵ This represents a 26 percent decrease from the same period in FY 2013, when TAS received 40,977 stolen identity cases, which represented 25 percent of all TAS receipts.⁶

Even with this decrease, stolen identity is still by far the most common reason taxpayers seek help from TAS. As shown below, IDT case receipts remain higher than in FY 2011 and FY 2012.⁷

1 IRS Global Identity Theft Report (May 31, 2014).

2 The IRS issued 772,666 IP PINs to identity theft victims for Filing Season (FS) 2013. For FS 2014, 1,207,581 were issued. IRS Global Identity Theft Report (May 31, 2014).

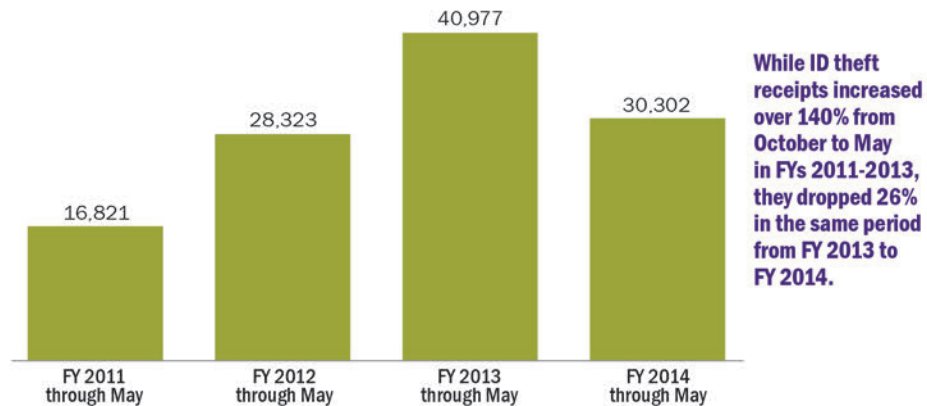
3 IRS Global Identity Theft Report (May 31, 2014); IRS Global Identity Theft Report (May 31, 2013).

4 Data obtained from TAS Business Performance Management System (BPMS) reports (dated Oct. 1, 2011, Oct. 1, 2012, and Oct. 1, 2013), showing TAS received 34,006 stolen identity cases as of Sept. 30, 2011, 54,748 cases as of Sept. 30, 2012, and 57,929 as of Sept. 30, 2013).

5 Data obtained from TAS BPMS Report, dated June 1 2014.

6 Data obtained from TAS BPMS Report dated June 1, 2013.

7 Data obtained from TAS BPMS Reports dated June 1, 2011, June 1, 2012, June 1, 2013, and June 1, 2014.

FIGURE II.12, TAS ID THEFT RECEIPTS

The number of ID theft receipts was nearly 40 percent higher than the second most common issue (pre-refund wage verification) through May of FY 2014.⁸

IRC § 7811 authorizes the National Taxpayer Advocate to issue a Taxpayer Assistance Order (TAO) to require that the IRS cease any action, take any action, or refrain from taking any action, when a taxpayer is suffering (or about to suffer) a significant hardship. In FY 2014 (through May), TAS issued 33 TAOs on identity theft-related issues. The IRS complied with 25 of the TAOs, with seven still in process.⁹

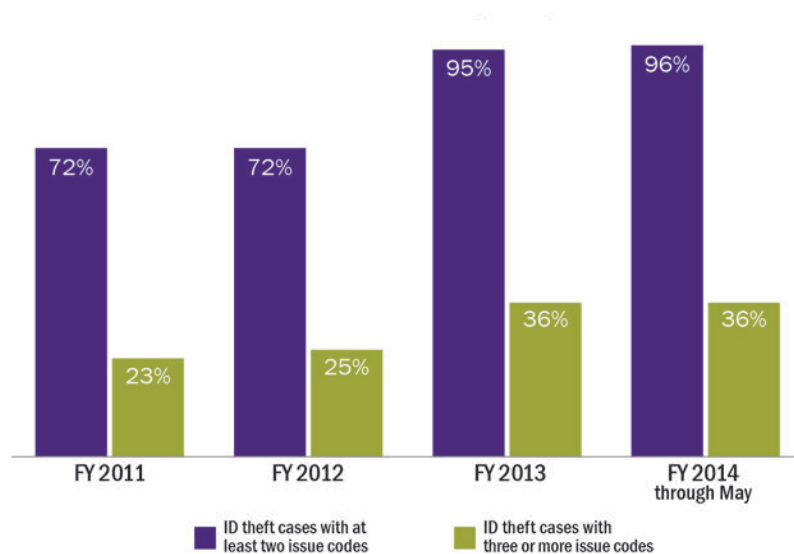
Identity Theft Cases Are Complex, Often Involving Multiple Issues.

Many identity theft cases are very complex, requiring actions by employees from different IRS organizations and with different skills. As the chart below illustrates, TAS Case Advocates must often address more than two issue codes to fully resolve a victim's case.¹⁰

⁸ TAS received 21,759 pre-refund wage verification cases in FY 2014 through May 2014. Data obtained from TAS BPMS reports dated June 1, 2014.

⁹ TAS rescinded one TAO. Data provided by Executive Director Case Advocacy report for Fiscal Year 2014 through May 31, 2014.

¹⁰ When TAS opens a case, it assigns a primary issue code based on the most significant issue, policy, or process within the IRS that needs to be resolved. When a TAS case has multiple issues to resolve, a secondary issue code will be assigned. See Internal Revenue Manual (IRM) 13.1.16.13.1.1 (Feb. 1, 2011).

FIGURE II.13, CLOSED TAS ID THEFT CASES INVOLVING MULTIPLE ISSUE CODES

In addition to a combination of primary and secondary issues, TAS IDT cases often involve several tax years, increasing the difficulty and time needed to resolve the cases. However, even as the issues have grown more complex, TAS Case Advocates have learned to resolve these cases more efficiently. In FY 2014 through May, TAS took an average of 84 days to close IDT cases, compared to 126 days during the same period in FY 2010. Case Advocates have obtained relief for the taxpayers at a rate of 83 percent in FY 2014 (through May), compared to 77 percent for non-IDT cases.¹¹

IDT Victims with Multiple Issues Need One IRS Contact Person to Oversee All Aspects of the Case.

In the prior section, we discussed cycle time and relief rate for IDT victims who come to TAS. While TAS cases are not necessarily representative of IRS cases, we suspect that a significant percentage of the IRS's IDT cases involve multiple issues. When IDT theft cases are limited to a single issue that the IRS Accounts Management (AM) function can resolve, it is reasonable to allow AM to work the cases, especially since AM has improved its processes and reduced its IDT case cycle time to approximately 120 days, as the IRS states in its response to the IDT recommendations in the National Taxpayer Advocate's 2013 Annual Report to Congress.¹²

¹¹ Data obtained by TAS Office of Technical Analysis and Guidance.

¹² See <http://www.taxpayeradvocate.irs.gov/userfiles/file/IRS-2013-MSP-Responses.pdf>.

However, the IRS does not really know if an IDT case worked by AM is a single-issue case because AM assigns its workload on a module-by-module basis (*i.e.*, it is concerned with resolving a specific tax issue in a given year). As a result, an AM assistor may not know that the taxpayer has an exam or collection issue related to the IDT, or if the case affects a second or even third tax year. In such cases, the 120-day cycle time would not represent the full impact on the victim.

The Wage and Investment Division (W&I) Commissioner, in discussions with the National Taxpayer Advocate, has agreed in principle that victims in cases with multiple issues should have a sole contact person in the IRS through the duration of their cases. Because identity theft is an invasive, traumatic crime, victims should not have to navigate the maze of IRS operations, recounting their experience time and again to different employees. This kind of behind-the-scenes activity should be invisible to the taxpayer.

TAS and W&I to Study ID Theft Process and Resolution Time

To gain a better understanding of what is really going on in the IRS inventory of IDT cases, TAS is coordinating with W&I to pull a representative sample of IDT cases from W&I inventory. This summer, we intend to quantify the number of IRS units involved in the resolution of ID theft cases and the number of contacts with the taxpayer. We will also determine the time required for the IRS to work a case, both in AM and in other functions. Ultimately, we plan to quantify the total time necessary to resolve all IDT-related issues, the number of affected modules, and the time to process any refunds.

This research, then, forms the background for an approach where AM would conduct a global account review upon case receipt (and closure) and handle true single-issue IDT cases. AM has shown, with its improved cycle time, that it is proficient in handling these cases. IDT victims with multiple issues would be assigned a sole IRS contact person who would interact with them throughout the case, no matter how many different IRS functions need to be involved behind the scenes.

In May 2014, the IRS announced it will realign many of its functions. Although details have not yet been articulated, the IRS is considering moving taxpayer-facing identity theft functions under a centralized unit in W&I.¹³ This proposal may be an opportunity for the IRS to create a new group with employees who act as the “IDT sole contact person” with the responsibility to shepherd accounts from inception to resolution when multiple functions are involved.

13 Email from Commissioner Koskinen to IRS employees (May 7, 2014).

The IRS Needs to Develop a Method to Track Identity Theft Servicewide Cycle Time from the Taxpayer's Perspective.

In a September 2013 audit, the Treasury Inspector General for Tax Administration (TIGTA) reported the average cycle time for the 100-case sample of IDT cases it reviewed was 312 days.¹⁴ In its response to recommendations from the National Taxpayer Advocate's 2013 Annual Report to Congress, the IRS commented that the TIGTA report painted an "inaccurate picture of how the IRS currently works identity theft cases, as well as current cycle time and timeliness."¹⁵

While some IRS functions can track how long IDT cases stay in their inventory, the IRS still cannot provide a servicewide cycle time measure for resolving IDT cases from the taxpayer's perspective.

We concur that the TIGTA report reviewed IDT cases that were closed prior to full implementation of the specialized approach to victim assistance, and is not the preferred source of data on IDT cases. Unfortunately, the IRS has no data of its own regarding cycle time *from the perspective of the taxpayer*. While some IRS functions can track how long IDT cases stay in their inventory, the IRS still cannot provide a servicewide cycle time measure for resolving IDT cases from the taxpayer's perspective.

The cycle times reported by various IRS IDT specialized units do not reflect the time that has passed since the taxpayer filed his or her return, or the time spent in interactions with other IRS functions. For example, the 120-day cycle time touted by the IRS, while commendable, pertains only to the AM portion of the case. All that means is that it took 120 days for AM to resolve one module. It does *not* mean all of the victim's tax issues were resolved in 120 days.¹⁶

We also recognize that cycle time start dates may differ depending on the facts and circumstances of the cases, but the IRS should be able to count cycle time in a way that reflects the taxpayer's experience more closely and flags over-aged cases more accurately. Currently, the IRS cannot easily compute overall IDT case cycle time, in part because many of the IDT specialized units use incompatible case management systems. The IRS should invest the information technology (IT) resources necessary to allow it to calculate an accurate IDT case cycle time from the taxpayer's perspective.

¹⁴ See TIGTA, Ref. No. 2013-40-129, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft* (Sept. 26, 2013).

¹⁵ See <http://www.taxpayeradvocate.irs.gov/userfiles/file/IRS-2013-MSP-Responses.pdf>.

¹⁶ As the IRS says in its response to recommendations from the National Taxpayer Advocate's 2013 Annual Report to Congress (see <http://www.taxpayeradvocate.irs.gov/userfiles/file/IRS-2013-MSP-Responses.pdf>), AM does count cycle time from the IRS victim's return received date. However, as noted above, in many cases AM deals with only one aspect of the of the overall victim's interactions with the IRS as a result of the IDT.

In FY 2015, TAS will:

- Working with W&I, review a representative sample of IRS IDT cases to determine the scope and size of the population of cases with more than one issue, then design an approach that enables a sole IRS employee to coordinate resolution of the issues and be the contact for that taxpayer;
- Collaborate with the IRS to arrive at a servicewide cycle time for IDT casework;
- Continue to work with the IRS on identity theft issues, recommending improvements and alternative approaches, with a particular focus on reducing the time it takes to resolve the case fully and accurately from the victim's perspective;
- Encourage Local Taxpayer Advocates to issue TAOs in appropriate cases to expedite relief to taxpayers when IRS processes are inadequate or too lengthy to assist taxpayers suffering from significant hardship;
- Improve our own case processing by timely alerting case advocates to any changes in IRS procedures to avoid delays in correcting the taxpayers' accounts; and
- Elevate emerging identity theft schemes and processing issues identified in TAS casework for collaborative solutions with the IRS.