



TAS RESEARCH REPORTS

Some Legitimate Taxpayers Did Not Receive a Tax Year 2020 Refund Because They Did Not Respond to an IRS Letter Requesting Identity Verification

EXECUTIVE SUMMARY

Each year, a few million refund returns trigger an IRS fraud filter, and these returns are set aside while the IRS awaits verification of the taxpayer's identity.¹ One of the challenges the impacted taxpayers face is that the IRS only issues one letter notifying the taxpayers of the need to authenticate, with no subsequent follow-up. Beginning in 2024, the IRS updated Where's My Refund? messaging to reflect return delays and the need for identity verification. Although the need to verify information before receiving a frozen refund is now noted on a taxpayer's IRS Online Account, only a small percentage of taxpayers have these accounts.

Last year, in conjunction with the National Taxpayer Advocate 2023 Annual Report to Congress, TAS published an online report describing a research project in which TAS contacted taxpayers likely eligible to receive their frozen tax year (TY) 2020 refunds.² As indicated, IRS procedures only require one letter notifying taxpayers of the need to authenticate their identity before the IRS will release their refund. Many of these refunds remained frozen because the taxpayers had not authenticated their identity with the IRS. In December 2023, TAS sent its first letter offering to help a sample of taxpayers likely eligible to receive their TY 2020 refund with navigating the IRS identity authentication process. TAS sent a follow-up letter in early January 2024 to the same taxpayers, repeating its offer of assistance. The TAS offer of assistance did not circumvent the necessity of the taxpayer authenticating their identity with the IRS but served as a reminder of the authentication requirement and offered to assist taxpayers with the authentication process.

¹ IRS, Wage and Investment (W&I) Business Performance Review (BPR) Q3, Fiscal Year (FY) 2023 (Nov. 2023).

² This study does not focus on taxpayers who are victims of identity theft refund fraud; rather, the focus is on taxpayers who filed legitimate returns but never responded to the IRS letter requesting the taxpayer authenticate their identity. For discussion of the delays faced by taxpayers who were victims of tax-related identity theft refund fraud, see *Most Serious Problem: Identity Theft: Processing and Refund Delays Are Harming Victims of Tax-Related Identity Theft*, *supra*.

TAS believes many legitimate taxpayers may be entitled to their frozen refunds, even though they have not yet authenticated their identity with the IRS. Once the IRS selects a return as potentially being submitted by an identity thief, the taxpayer must authenticate their identity before the IRS will process the return. While IRS procedures only require it to send one letter notifying taxpayers of the need to authenticate their identity, a recent study conducted by TAS and the IRS Refund Integrity Compliance Services (RICS) office, which explored why taxpayers often delay authenticating, found that many taxpayers reported never receiving the IRS letter requesting they authenticate their identity.

The TAS outreach study discussed in this report explored the effect of sending subsequent letters to a sample of potentially legitimate taxpayers who were likely entitled to their claimed refunds even though they had not authenticated their identity with the IRS in the past three years. The letters offered TAS assistance to taxpayers needing to authenticate their identity to receive their TY 2020 refund, which remained frozen by the IRS. TAS tracked both the number of respondents and whether the taxpayers could successfully verify their identity and tax return information as well as the number of taxpayers who successfully authenticated their identity directly with the IRS after receiving the TAS letter.

Our outreach study determined that over seven percent of sampled taxpayers were able to work with TAS or the IRS to successfully authenticate their identity, about 2.3 times the authentication rate of taxpayers from a control group not receiving the TAS outreach letter, where we observed a 3.1 percent authentication rate.³ Respondents in the study received over \$3.8 million in released refunds, and the IRS may release up to \$122,000 in additional refunds to taxpayers who contacted TAS but whose TAS case remains open.⁴

INTRODUCTION

In most years, the IRS freezes the refunds of two to four million returns due to potential identity theft; however, at least half of the returns are false positives, and legitimate taxpayers later authenticate them as properly filed returns.⁵ This report describes a TAS project to determine if taxpayers with characteristics indicating likely eligibility for their claimed TY 2020 refund are indeed legitimate taxpayers entitled to the refund. The refund remains frozen because the taxpayer did not respond to the single IRS letter requesting identity verification.

Beginning in late 2020, the IRS changed its procedure to only issue one letter, instead of two, requesting the taxpayer authenticate their identity. Unless special circumstances exist, such as the taxpayer resides in a federally declared disaster zone or the taxpayer requests the IRS reissue the identity authentication letter, the IRS continues to only send a single letter requesting authentication before the IRS will issue the claimed refund.⁶ Without authentication, the IRS transcribes the return, but does not process it.

3 TAS determined successful identity authentication occurred when, subsequent to the TAS outreach letter, the taxpayer either received their refund or the IRS posted a reversal transaction code (TC) 972 action code (AC) 506 to the account indicating the IRS erroneously froze the refund return. In some cases, the IRS has authenticated the taxpayer's identity but has not yet issued the refund.

4 IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) (Dec. 5, 2024). Taxpayer Advocate Management Information System (TAMIS) (Oct. 18, 2024). TAS is still working 21 case receipts from taxpayers who received the outreach letters.

5 In calendar year (CY) 2021 (generally TY 2020 returns), the IRS identity theft filters false detection rate was over 61 percent and is expected to be 54 percent in CY 2023. IRS, W&I BPR Q3, FY 2023 (Nov. 2023). As a result of paper shortages and the significant increase in fraudulent returns during the pandemic, the IRS made the decision to only send a single notice in 2021 (generally affecting TY 2020 returns) requesting the taxpayer verify their identity. Notes from System Advocacy and Refund Integrity and Compliance Services Executive call (Oct. 26, 2020) (on file with TAS).

6 Internal Revenue Manual (IRM) 25.25.6.1.7, Taxpayer Protection Program Overview (June 24, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r. IRM 25.25.6.6.2, Procedures for When the Caller Has Not Received or Lost the Taxpayer Protection Program (TPP) Letter (June 24, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r.

On December 1, 2023, TAS mailed letters to a sample of nearly 4,000 taxpayers likely to be eligible for the refund from their TY 2020 return.⁷ This letter offered TAS assistance with completing the IRS identity verification process. The taxpayers were required to meet all IRS identity verification criteria to free up their refunds but were offered the assistance of TAS to walk them through the process. TAS sent a follow-up letter to these taxpayers about 30 days after mailing the first letter.⁸

The results of this study indicate the lack of taxpayer response to the IRS's single letter requesting identity verification does not necessarily indicate that an identity thief submitted the refund claim. While only about seven percent of taxpayers receiving the letters responded to either TAS or the IRS for assistance in authenticating their identity, taxpayers were able to receive millions of dollars of legitimate TY 2020 refunds. Additionally, some taxpayers not receiving an offer of TAS assistance to navigate the TAS identity theft process for their frozen TY 2020 refunds reached out directly to the IRS and authenticated their valid refund claim as late as 2024, clearly demonstrating that taxpayer non-response is not a definitive indicator of identity theft. However, taxpayers receiving the additional offer for assistance from TAS were over two times more likely to authenticate their identity, which allowed the IRS to release their previously frozen TY 2020 refunds. Furthermore, TAS's office telephone messaging about delays in working taxpayer inquiries may have discouraged some taxpayers, thereby lowering the response rate. While the IRS prevents releasing billions of dollars in fraudulent refunds to identity thieves, they also deprive many taxpayers of their legitimate refunds totaling millions of dollars and violating the taxpayer *rights to pay no more than the correct amount of tax, to quality service, and to a fair and just tax system.*⁹

BACKGROUND

The Federal Trade Commission (FTC) received over a million complaints of identity theft in 2023. Overall, the FTC reported dollar losses associated with fraud in 2023 at over \$10 billion, a 14 percent increase over 2022.¹⁰ Increased fraudulent activity increases the burden on the IRS to safeguard our tax system and prevent the release of fraudulently claimed refunds. For its part, the IRS receives millions of refund returns each year.¹¹ It has a difficult job stopping potentially billions of dollars in fraudulent refunds from being issued while ensuring that legitimate taxpayers receive their refunds without extensive delay.

In calendar year (CY) 2021, the IRS selected 4.1 million returns into its Taxpayer Protection Program (TPP) because of suspected identity theft, initially stopping \$7.5 billion of claimed refunds. However, in CY 2021, the IRS incorrectly stopped legitimate refund returns over 61 percent of the time.¹²

The IRS continues to hold TY 2020 refund returns (generally submitted in 2021). These are returns the IRS identified as potentially fraudulent and where the taxpayer never responded to the IRS's letter notifying them of the need to authenticate their identity before the IRS would release the refund. In addition to the 1.6 million TY 2020 returns archived by the IRS with frozen refunds totaling about \$4.8 billion, the IRS has archived the returns and frozen the refunds of nearly 1.9 million taxpayers in TY 2021, totaling over \$10 billion in claimed refunds.¹³ While these totals include many fraudulent refund claims, the total undoubtedly includes legitimate taxpayer refunds. When there is no response to the IRS letter requiring

7 We describe the criteria to determine likely legitimate taxpayers later in the methodology section.

8 Because of overall high case receipt volumes, TAS was often unable to input taxpayers responding to the first TAS letter into its case management system, leading to a delay of about four weeks. As a result, every taxpayer in the TAS sample received both TAS outreach letters.

9 IRS, W&I BPR Q3, FY 2023 (Nov. 2023).

10 FTC Press Release, As Nationwide Fraud Losses Top \$10 Billion in 2023, FTC Steps Up Efforts to Protect the Public (Feb. 9, 2024), <https://www.ftc.gov/news-events/news/press-releases/2024/02/nationwide-fraud-losses-top-10-billion-2023-ftc-steps-efforts-protect-public>.

11 The IRS received nearly 130 million refund returns in 2021 and around 100 million returns in each subsequent year. IRS, Filing Season Statistics Reports (Dec. 2021; Dec. 2022; Dec. 2023; May 2024).

12 IRS, W&I BPR Q4, FY 2023 (Nov. 2023). Generally, these are TY 2020 returns due and filed in 2021.

13 IRS, CDW, IMF and Individual Returns Transaction File (IRTF) Master File Tax (MFT) Code 32 (Oct. 24, 2024).

verification, the IRS presumes an identity thief is claiming the refund, continues to hold the refund, and takes no further action. The IRS will ultimately archive a return when it does not receive a taxpayer response, but it generally does not complete the archiving process until at least a year after the return was initially due. Although the IRS is trying to prevent the release of as many fraudulent refunds as possible, some legitimate taxpayers are harmed due to their lack of authentication.

Each year, thousands of legitimate taxpayers contact the IRS after the 30-day timeframe specified in the letter. The IRS has stated that refund processing on false positive cases of identity theft takes a modest six weeks on average; however, this timeframe can be misleading.¹⁴ Many taxpayers are unable to complete the identity authentication process for many months and are therefore unable to receive their refund. This can be due to confusion about the steps required for resolution, poor IRS service, insufficient correspondence, or other reasons. Figure 5.1.1 depicts the number of TY 2020 returns where the taxpayer authenticated their identity well after the return filing or issuance of the IRS letter requesting authentication. Eventually, over half of these taxpayers received their refund, but some are still waiting for the IRS to finish processing their return and associated refund.

FIGURE 5.1.1, TY 2020 Returns Determined to Be Legitimate After the IRS Archived the Return Because of No Response to the IRS Request for Identity Authentication¹⁵

Tax Year	Accounts Reversed	Average Processing Time for Taxpayer to Authenticate Identity	Accounts Reversed (With Refund)	Average Refund Amount	Median Refund Amount
2020	49,510	18 months	28,230	\$20,974	\$2,194

Figure 5.1.1 shows that thousands of legitimate taxpayers took an average of 18 months to authenticate their identity so they could receive their TY 2020 refund.¹⁶ At this time, we do not know why taxpayers waited so long. It could be they never received the letter, the taxpayer moved, the letter was returned undeliverable, the taxpayer did not understand what was required, or the taxpayer did not comply with the authentication criteria.¹⁷

Taxpayers are often unaware of the IRS letter that requests they authenticate their identity before the IRS will release their refund and thus continue to wait for the processing of their returns. TAS opens many cases each year from taxpayers who do not understand why they have not received their claimed refund.

These occurrences establish that legitimate taxpayers may not authenticate their identity for many months after the IRS froze their refund. This study demonstrates that a number of taxpayers never contact the IRS to authenticate their identity, even though they are the rightful individual and entitled to the refund. As such, the IRS should consider taking additional administrative steps to verify the taxpayer’s identity.

¹⁴ TAS notes from Artificial Intelligence (AI) Assurance Team Meeting (June 2024) (on file with TAS).

¹⁵ IRS, CDW, IMF (Oct. 24, 2024). The average time is computed from the received date of the tax return to the input of the first TC 972 AC 124 or 129. The actual average time for a taxpayer to authenticate may be longer. In some cases, the IRS inputs a TC 972 AC 124 or 129, although it takes no other actions, and many months later it inputs a new TC 972 AC 124 or 129 and then issues the refund. IRM 25.25.6.8, Valid Tax Returns That Were Archived - Deleted Returns or Failed Systemic MFT 32 Reversals That Must Be Reprocessed Manually – RIVO and Non-RIVO Employees (Oct. 1, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r. The IRS archives frozen refund returns after not receiving a response from its letter requesting the taxpayer authenticate their identity. Taxpayers who respond to the IRS after it archives the return must wait for the IRS to establish the archived return on IMF.

¹⁶ *Id.*

¹⁷ The IRS destroys letters to authenticate if returned as undeliverable. IRM 25.25.5.2.1.2, General Correspondence Identity Theft Response (Oct. 6, 2022), https://www.irs.gov/irm/part25/irm_25-025-005r. TAS and RICS are currently analyzing the results of a survey designed to determine why taxpayers often take longer than 30 days to authenticate their identity.

OBJECTIVES

- Determine the percent of taxpayers who will respond because of a TAS outreach letter offering to assist them with navigating the IRS identity authentication process to receive a claimed refund, which is still frozen by the IRS.
- Determine the percent of respondents after TAS's outreach letter offering to assist the taxpayer with the IRS identity authentication process who can successfully complete the authentication process and quantify the amount of refunds issued.

METHODOLOGY

TAS Research identified a population of individual taxpayers whose TY 2020 returns triggered the fraud filters, freezing the refunds due to potential identity theft.¹⁸ These same taxpayers, however, did not have any identity theft indication on their subsequently filed TY 2021 tax returns. The subsequent, legitimate refund returns indicate the possibility that the IRS incorrectly detected identity theft in TY 2020. But as a result of taxpayers not following the remedial authentication procedures, the IRS did not process their returns and release their TY 2020 refunds. We also used several other characteristics and supporting data points to identify and refine the population of taxpayers potentially eligible for the refund the IRS is still holding. Criteria incorporated in the methodology include:

- The taxpayer claimed a refund in both TY 2020 and TY 2021. The TY 2020 refund was frozen due to potential identity theft, while the TY 2021 refund was not.¹⁹
- The taxpayer must be 18 or older and with no taxable Social Security entered on Form 1040, unless the taxpayer's age is at least 62.
- There is no processing code on the taxpayer's account that indicates identity theft case resolution is complete.
- Wages from the Form W-2 for the primary or secondary taxpayer must be greater than zero.
- Withholding specified on the taxpayer's return must be no greater than \$100 more than the taxpayer's withholding shown on their Form W-2.²⁰
- The taxpayer has not submitted Form 14039, Identity Theft Affidavit, and the taxpayer's TY 2020 original return has not posted to the IRS Master File.

From the identified population, we created a stratified random sample by state and territory in combination with adjusted gross income (AGI) percentile ranges. The sample included nearly 4,000 taxpayers, 100 of whom were designated as Spanish-speaking taxpayers.

TAS crafted an outreach letter, which was sent to the sample of taxpayers on December 1, 2023.²¹ TAS provided taxpayers receiving these letters with a telephone number to contact the Local Taxpayer Advocate office in the District of Columbia for assistance with navigating the IRS identity authentication process. TAS began receiving calls and opening advocacy cases in response to its outreach letter on December 11, 2023; however, high case inventory prevented TAS from responding quickly to those taxpayers who called in response to the letter. TAS sent a follow-up letter about 30 days later.

18 TAS discussed the methodology to identify the population of likely legitimate filers with the IRS prior to its use.

19 In a few cases, TAS inadvertently sent the TAS outreach letter to taxpayers who claimed but had not received their TY 2021 refund. Only three of these taxpayers responded to TAS. One of these taxpayers never responded to the TAS request for documentation and the case was closed. The other two taxpayers were victims of identity theft; one of these taxpayers was granted full refund relief, and TAS is helping the other taxpayer with the authentication process to have the legitimate return processed so they can receive their refund.

20 Higher withholding reported on the tax return relative to the Form W-2 may be a greater indication of identity theft.

21 The TAS outreach letters were two-sided with an English and Spanish version of the text on opposing sides of the letter.

TAS reviewed the accounts of the sample of taxpayers receiving the TAS outreach letter, as well as the accounts of the more than 84,000 also likely legitimate taxpayers whose TY 2020 refund remained frozen but did not receive an outreach letter. Generally, we considered taxpayers who received their TY 2020 refund or who successfully authenticated their identity after the TAS mailed its outreach letter as successful results of the outreach. After receiving additional input from RICS, we excluded cases where a marker was placed on the account indicating the legitimate taxpayer was a victim of identity theft, even if the IRS had not yet issued the refund. We also ensured subsequent identity authentication markers clearly indicated the original refund freeze was erroneous, and we reviewed cases to ensure the refund was attributable to the return processed after the taxpayer received the TAS outreach letter.

Limitations and Project Deviations

The telephone number provided on the TAS outreach letters presented taxpayers with an office telephone message that TAS might not respond to the call for up to four weeks. This outgoing message may have inhibited some taxpayers from leaving a message with TAS to seek its assistance with recovering their TY 2020 refund. A review of some TAS cases received as a result of the outreach indicated that TAS Case Advocates prematurely closed some of these cases as non-response or provided incorrect guidance to these taxpayers, which may have prevented their successful identity authentication. We expanded our analysis to include taxpayers receiving the TAS outreach letter who chose to work directly with the IRS to release their TY 2020 refund.

ANALYSIS AND DISCUSSION

TAS identified a population of over 88,000 individual taxpayers after selecting returns with the specified criteria indicative of returns with a good likelihood that the claimed refund was legitimate. These taxpayers reported a median AGI of less than \$7,500 and claimed over \$500 million in total unreceived refunds with a median refund amount of about \$1,800.²² Over a quarter of these taxpayers claimed the Earned Income Tax Credit (EITC) with a median EITC claim of more than \$400. As these data points show, the IRS's broad identity theft filters affect a substantial number of taxpayers with low or modest incomes likely in need of claimed refunds and credits.

Figure 5.1.2 illustrates the total number and percent of sampled taxpayers who were able to successfully complete identity authentication. About 7.2 percent of sampled taxpayers were able to authenticate. For the purposes of this study, the authentication rate of 7.2 percent also represents the estimated overall response rate to the outreach letter, reflecting not only those taxpayers who contacted TAS but also those who worked directly with the IRS to authenticate their identity and receive their claimed refund.

FIGURE 5.1.2, Sampled Taxpayers Who Successfully Authenticated²³

Case Type and Status	Total Sample (After Start of Outreach)
TAS Cases Authenticated	62
Cases Authenticated Directly With the IRS	224
Total With Authentication	286 (7.2%)

The data in Figure 5.1.2 includes taxpayers with a posted reversal of identity theft markers in the IRS Master File as well as those where the IRS has now issued the refund to the taxpayer. TAS cases indicate the respondents who contacted TAS for assistance and whom TAS directly helped via the TAS outreach letter. Out of the total 286 sampled taxpayers who authenticated after our outreach began, 62 taxpayers contacted TAS,

²² IRS, CDW, IRTF and IMF (Oct. 24, 2024). The average refund amount claimed was over \$5,500. The sampled taxpayers exhibited similar AGI and refund characteristics as the identified population.

²³ IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

and the remaining 224 taxpayers, who represent those indirectly helped by the outreach letter, authenticated their identity by opting to contact the IRS. Overall, TAS was contacted by 121 taxpayers in the outreach sample, and 62 (51.2 percent) have successfully authenticated their identity.²⁴

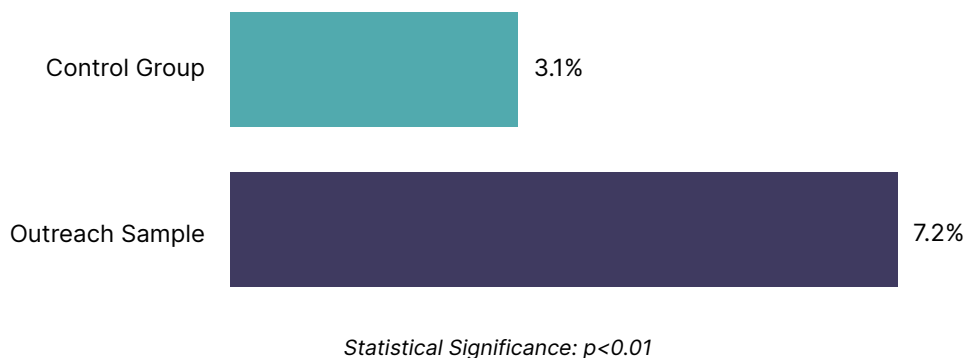
To further evaluate the effect of the outreach letter, whether direct or indirect, we performed statistical significance testing on the sample authentication rate and refund rate in comparison to the rates observed for the untreated control group of over 84,000 taxpayers. Through this comparison, we help ensure data integrity in evaluating differences in rates between the treated and untreated groups.

Applying the Pearson's Chi-Square Test and Fisher's Exact Test, the authentication and refund rates achieved in this outreach study demonstrated a statistically significant difference compared to the remaining, untreated control group of over 84,000 taxpayers. We implemented these statistical tests because of their effectiveness in evaluating relationships between categorical variables and their flexibility in handling varying sample sizes. In this study, the categorical variables included whether taxpayers received the outreach letter, whether the taxpayer authenticated, and whether the IRS released the refund.

As shown in Figure 5.1.3, the untreated group had an authentication rate of only 3.1 percent compared to the 7.2 percent authentication rate in the outreach study, resulting in a p value of under 0.01, indicating a less than one percent probability that the differences in authentication rates were due to random chance. Although this study does not delve into the direct effect of the IRS sending a second follow-up letter, the outreach conducted in this study effectively serves as a second, or even third, attempt to notify the taxpayer that they must authenticate their identity to receive their claimed refund. Additionally, we believe the second letter TAS issued had a noticeable positive effect on taxpayer response, given that TAS received over 78 percent of its cases after it sent the second letter.

FIGURE 5.1.3²⁵

Statistical Significance of Authentication Rate Comparing TAS Outreach Sample and Untreated Group



Many taxpayers are still waiting for their refund, even though the IRS has authenticated their identity. Figure 5.1.4 summarizes the number of taxpayers in the sample who received their TY 2020 refunds. Out of the 121 taxpayers who directly contacted TAS after our outreach began, over 51 percent successfully authenticated

²⁴ IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

²⁵ IRS, CDW, IMF (Dec. 5, 2024). TAS also took three random samples of 4,000 each from the untreated control group using the same stratification criteria by state and AGI as the outreach sample. The average authentication rate from the three samples, compared to that of our outreach sample, achieved the same overall result with a p value less than 0.01.

their identity with about 38 percent having already received their refund. There are 21 respondents with potential refunds that collectively total approximately \$122,000 whose cases remain open in TAS. The IRS issued the claimed refunds to another 129 of the taxpayers receiving an outreach letter who contacted the IRS instead of TAS and authenticated the identity of another 95 taxpayers who contacted the IRS directly, even though they have yet to receive their refunds.²⁶

FIGURE 5.1.4, Sampled Taxpayers by Refund Status²⁷

Case Type	Refund Status	Sampled Taxpayers	Amount of Refund
TAS Case	Refund Released	46	\$902,900
	No Refund Relief	54	-
	Open	21	-
Non-TAS Case	Refund Released	129	\$2,925,400
Total Taxpayers With Refund Issued		175	\$3,828,300
Refund Rate		4.4%	-

Given the data in Figure 5.1.4, we determined an estimated refund rate of 4.4 percent.²⁸ While the rate may be relatively low, the IRS had miscategorized these as identity theft and deprived these taxpayers of over \$3.8 million in rightful refunds. Moreover, the TAS outreach letters did not reach these taxpayers until nearly three years after the refund was initially payable, and taxpayers were much more likely to request their still-frozen refunds than taxpayers not receiving the outreach letter.

As shown in Figure 5.1.5, applying the same methodology as before, we also tested the significance of the refund rates between our sample of taxpayers receiving the TAS outreach letter and the control group not receiving the outreach letter. The untreated group had a refund rate of only 2.2 percent compared to the 4.4 percent refund rate in the outreach study, resulting in a *p* value of under 0.01, indicating a significant probability that the differences in refund rates were not due to random chance.

FIGURE 5.1.5, Statistical Significance of Refund Rate Comparing TAS Outreach Sample and Untreated Group²⁹

Percent of Sampled Taxpayers With Refund	Percent of Untreated Group With Refund	Statistical Significance
4.4%	2.2%	<i>p</i> <0.01

The results showed a more pronounced difference in authentication rates between groups compared to the difference seen in refund rates, with an authentication rate in the outreach sample that was about 2.3 times that of the control group. Therefore, while a relatively modest but consequential percentage of those in the sample had a refund released, many more were legitimate taxpayers who successfully authenticated their identity even though the IRS has not yet released their refund.

26 IRS, CDW, IMF and IRTF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

27 IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024). Where no refund relief is indicated for TAS cases, no refund is expected to be granted for the taxpayer, although TAS may have prematurely closed some cases while the taxpayer continued to work directly with the IRS. Both the outreach and control groups exhibited nearly identical authentication rates prior to the outreach period of about three percent for each group. About \$548,200 of the total refunded amount was attributable to interest.

28 IRS, CDW, IMF (Dec. 5, 2024). TAMIS (Oct. 18, 2024). TAS calculated the refund rate based off those taxpayers where CDW indicated the IRS released the refund, as shown in Figure 5.1.4.

29 *Id.*

After the outreach sample was drawn, we identified 25 taxpayers who passed away, and another roughly 1,100 individuals in the sample had an indication of address changes or the outreach letter was returned for other reasons. Removing these taxpayers who likely did not receive the outreach letter would increase the percent of taxpayers in our study group who successfully authenticated their identity (and the percent who received their refunds). Although we cannot determine with certainty whether these individuals are legitimate taxpayers, the IRS should consider changes in address as a factor, which likely impacted the response rate observed in this study, in evaluating whether a single letter is sufficient.

Looking at the composition of taxpayers who responded relative to those who did not, respondents in the sample had a median AGI that was about 2.4 times that of non-respondents and a correspondingly higher refund claim, as shown in Figure 5.1.6. While those with greater financial resources are generally in a better position to seek resolution of their tax issues, taxpayers with lower incomes caught up in identity theft filters appear to exhibit greater challenges in authenticating their identity; therefore, continued outreach through mailed letters may not yield a noticeable benefit, thus elevating the importance of precision in IRS detection methods. Although the IRS has consistently maintained its stance of allowing a high false detection rate, it should focus on improving the precision of identity theft filters for lower-income taxpayers in greatest need of their claimed refunds and credits.

FIGURE 5.1.6, Median Refund Amounts and AGI for Respondents and Non-Respondents³⁰

Respondent Median Refund Claim	Respondent Median AGI	Non-Respondent Median Refund Claim	Non-Respondent Median AGI
\$2,400	\$16,300	\$1,800	\$6,700

In addition to improving the precision of identity theft filters, particularly with lower-income taxpayers, the IRS could potentially utilize similar criteria outlined in the methodology section to retroactively identify taxpayers most likely to have a legitimate refund. At a minimum, when a taxpayer receives a refund for the year subsequent to the year in which the IRS identified potential identity theft, the IRS should reissue a notice to taxpayers about the steps required to have the IRS release frozen refunds from prior years. The IRS should also consider the timing of the notice reissuance due to the possibility of the taxpayer moving and send the notice shortly after the IRS processes the following year's return to the taxpayer's latest address.

CONCLUSION AND RECOMMENDATIONS

The primary purpose of this study was to determine if legitimate taxpayers are not receiving the refunds to which they are entitled due to IRS fraud filters freezing their accounts and withholding the refunds. Specifically, TAS explored whether taxpayers would respond to an outreach letter offering assistance with navigating the IRS's identity authentication process so they can receive their TY 2020 refund. The study determined the frequency with which taxpayers receiving the letter responded to TAS or the IRS, how often respondents to TAS could successfully complete the IRS identity authentication process, and the amount of money refunded to taxpayers. TAS understands that the IRS has a difficult task trying to prevent the issuance of fraudulent refunds to identity thieves while also ensuring that legitimate taxpayers receive their refunds. But the IRS's identity theft filters have consistently resulted in a high false detection rate, forcing many taxpayers with valid returns to complete verification steps they may not understand or that they require assistance in resolving. IRS procedures assume the taxpayer received the one letter it sent requesting the taxpayer contact the IRS to verify their identity and assume that the return must not be valid if the taxpayer does not respond.

³⁰ IRS, CDW, IMF and IRTF (Dec. 5, 2024).

Through our outreach efforts, TAS determined that based on our response rates and analysis, a meaningful percentage of taxpayers selected by identity theft filters who did not timely authenticate their identity with the IRS are indeed legitimate taxpayers. We also confirmed that our outreach even three years later had a statistically significant effect in prompting taxpayers to authenticate their identity and receive their claimed refunds compared to the control group of taxpayers who did not receive the outreach letter. While taxpayers need to be willing to respond to IRS letters requesting identity authentication, the IRS must ensure that it takes all steps necessary to ensure legitimate taxpayers receive and understand the letters and respond to their authentication requests. TAS is concerned that the IRS's single letter requesting the taxpayer authenticate their identity, which the IRS is not even sure the taxpayer received, is sufficient effort. To add even more complexity, for the past three years, taxpayers with questions about verifying their identity have faced extremely low levels of service on the IRS's TPP line. Between FYs 2021 and 2024 the LOS ranged between 12.6 and 31.0 percent.³¹

TAS has concerns that the IRS procedures do not adequately protect taxpayer rights. Taxpayers have the *rights to quality service, to pay no more than the correct amount of tax, and to a fair and just tax system.*

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. Provide a second follow-up letter approximately 30 to 60 days later if the taxpayer has not yet responded and authenticated, notifying the taxpayer that they must authenticate their identity before the IRS can release their claimed refund.
2. When the IRS releases a refund for the current year and there are still frozen refunds for prior years, resend a notice to the taxpayer that they still need to authenticate their identity for the prior year. Taxpayers should receive this letter as close as possible to the filing date of the current year return.
3. Perform additional research on taxpayers, particularly those with lower incomes, who had their refunds released much later with the goal of reducing the false detection rate for identity theft filters and to improve administrative processes around identity authentication.

³¹ The IRS's Levels of Service on its TPP line for FYs 2021, 2022, 2023, 2024 were 13.2, 12.6, 31.0, and 20.2 percent, respectively. IRS, Joints Operations Committee, Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2021; Sept. 30, 2022; Sept. 30, 2023; Sept. 30, 2024).