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Identity thieves tax the system

By Kevin McCoy, USA TODAY

David Hodge got a shock when he filed his federal tax returns last year. An identity thief had beaten him to it.

"I was stunned," says Hodge, a 33-year-old Mount Vernon, N.Y., home-improvement contractor, recalling the moment his accountant told him the IRS had rejected his return because someone had already filed using his name and Social Security number. "How could somebody do that?"

Hodge contacted the IRS. He says the tax agency told him to produce copies of his Social Security card and birth certificate within 30 days, "or else I would probably have more problems with that number."

Unable to comply by the deadline, Hodge says, he left "message after message after message" with the IRS seeking an extension, "But nobody called me back, ever." He didn't know whether the problem had been resolved until this spring, when his accountant, Catherine Censullo, filed his 2007 tax return electronically without problems.

"I'm getting a refund, too, which is great after everything that happened," he says.

Even as the Tuesday federal tax deadline looms, Hodge's experience is becoming more common. Federal Trade Commission complaints involving tax returns linked to identity theft rose to 20,782 in 2007, up 158% since 2003. Similar complaints to the IRS Taxpayer Advocate jumped to 3,327 in federal fiscal year 2007, up 644% in three years.

Nina Olson, head of the IRS Taxpayer Advocate office, reported to Congress early this year that identity theft has emerged as one of the top problems facing taxpayers. Olson said in an interview she believes the statistics only hint at the size of the problem.

"If you want quantification, we don't know," Olson says. "The IRS has no idea how many cases of identity theft exist."

Senate Finance Committee Chairman Max Baucus, D-Mont., criticized the tax agency's efforts to combat the problem during a Thursday hearing. Saying, "Victims of identity theft deserve better," he directed the IRS to produce a comprehensive action plan within 90 days. IRS Commissioner Douglas Shulman, conceding the agency's response to the problem "is not where it needs to be," promised to comply.

"It's time to end the nightmare for honest American taxpayers who fall victim to identity theft," said Baucus.

That nightmare is spreading, according to USA TODAY interviews with more than a dozen accountants and other tax experts nationwide.

Often, the goal is to collect an undeserved tax refund. File with one stolen identity, claim multiple dependents and apply for the federal Earned Income Tax Credit, and an identity thief can snag a tax refund worth thousands of dollars, or more. Diana Aliffi, a Riverhead, N.Y., accountant, allegedly stole former clients' personal information in a scam that could have netted her up to \$19 million in tax refunds, according to an indictment unsealed Wednesday in Suffolk County Court.

"People create a phony business, phony children, phony working hours and other details to get a very nice refund," says Eduardo Leiseca, an enrolled agent in Miami who says a client who ran an import-export business fell victim to just such a scheme.

Alternately, taking another's identity can help thieves hide a criminal conviction, illegal-immigration status or other problem that could block them from getting a job. Their employers file W-2 wage-reporting forms with the IRS, which attributes the income to the true owner of the Social Security number. Victims don't discover the problem until the IRS contacts them with questions about under-reported income.

Either way, the thieves' victims confront weeks or months of bureaucratic wrangling to verify their identity at best, or suffer longer-term financial damage at worst.

A New York State Police trooper whose identity was stolen last year waited from February until September to get his anticipated tax refund as the IRS sorted out the problem, says Dianne Corsbie, the enrolled agent who prepared and filed his tax return.

"He was counting on that refund to pay his real estate tax bill. He didn't have the money to pay on time ... and he had to pay penalties and interest, so of course it was a hardship," says Corsbie, a tax preparer at Boncor & Associates in White Plains, N.Y.

Victims forced to wait for refunds

A worker at the Hiram Walker distillery in Fort Smith, Ark., got his federal tax refund as expected last year. But six months later, he received an IRS letter questioning whether he had under-reported his income, says Charles Homolka, the enrolled agent in Muldrow, Okla., who prepared his tax return.

"Someone using his name and Social Security number worked at an aircraft factory in California. The IRS thought my client was hiding the income," Homolka says. "It made me laugh, because the commute would have been murder."

But it was no laughing matter for the distillery employee, because the problem took at least three months to resolve with the IRS, Homolka says.

Some cases take far longer. From 2002 through 2005, multiple identity thieves used the name and Social Security number of a Mexican-American factory worker to get jobs in Kansas, Texas and New Jersey, says Bob Smith, the enrolled agent in Albert Lea, Minn., who prepared the worker's tax returns. Olson says Taxpayer Advocate staffers have helped many victims whose identities were similarly appropriated.

"One year, he supposedly had over \$240,000 in income" from all the different jobs, Smith says. "He said, 'I'll pay the tax if I can have all that income.'"

Each time, the IRS held up the worker's tax refund while investigating whether he had under-reported his income, Smith says. Each time, it took about six months to prove his client hadn't worked elsewhere and to get the refund released, he says.

Like Hodge, many identity-theft victims and their accountants complain about IRS delays and miscommunications in resolving their claims. Olson acknowledged in her congressional report that while IRS response has improved, the agency "too often exacerbates the difficulties" faced by victims. She said the IRS:

- Used procedures that ignored common-sense evidence about the rightful owner of a disputed Social Security number.
- Gave alleged victims temporary identification numbers to file tax returns and then denied tax benefits because they did not use Social Security numbers to file.
- Provided inadequate authentication processes for the electronic filing system used by many taxpayers and tax preparers.
- Provided instructions that varied from office to office, leaving victims "bounced around from one place to another."

"They were behind the curve," Olson says. "They didn't see this as a global issue, but rather as a specific problem that they had."

Similarly, a federal audit released Wednesday said the IRS contacted identity-theft victims multiple times for the same issues, even though their cases had been previously marked as closed. The audit, conducted by the Treasury Inspector General for Tax Administration, also criticized the IRS failing to pursue criminal investigations of identity thieves unless the cases "directly relate to a substantive tax or conspiracy violation." Only 100 IRS referrals for criminal prosecution in the last two years included identity-theft charges, the audit found.

"We are concerned that if the IRS takes no additional action to stop further use of another person's identity, then there is no deterrent to keep the problem from spreading," the audit concluded.

What the IRS is doing to help

The IRS agreed with the auditors' call for development of new and tougher strategies to deal with the problem. In an interview last week, Linda Stiff, the IRS deputy commissioner for services and enforcement, said cracking down on identity theft and assisting its victims is now "a top priority here."

The IRS recently established a Privacy, Information Protection and Data Security office to centralize the tax agency's handling of identity-theft issues and help provide assistance and consistent treatment to taxpayers whose personal information has been stolen.

Stiff says the agency by the fall will also form a team of specialists skilled both in navigating the IRS and in the measures victims should take "to get their lives back in balance."

"We've taken steps to ensure that our workforce ... understands that when they're dealing with a victim, it's imperative that they provide the assistance that that victim needs, on the first call, and not 10 calls later," says Stiff.

The IRS recently created an electronic marker to flag compromised Social Security numbers in a system that would alert employees agencywide. The move is aimed at sparing identity-theft victims from having to prove their claim year after year.

But Olson, complaining, "There's no central guidance within the IRS as to how to use the marker," says the agency should do more.

She recommended creating an IRS form for taxpayers to file if they've been victimized by identity theft.

She also urged the agency to notify all filers using a compromised Social Security number that their identity might have been stolen.

"Maybe the thief would stop" after receiving such a notice, she said, adding that true victims would be alerted to the need to contact the IRS and other authorities.

Stiff says some of Olson's recommendations have been implemented, and others are being assessed as the IRS works to improve its victim assistance.


Once a taxpayer has proved she or he has been victimized, says Stiff, "We want you to know that we've cleared the matter up, and we want to take steps so that in the future our records won't force you into having to prove that a second or third or fourth time."

Although Hodge says the IRS never officially notified him about the outcome of his claim, he hopes the new steps being taken by the agency mean his ordeal is over.

"I feel ecstatic now," he says, "because I feel like I finally got my identity back."

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