

# United States Senate

WASHINGTON, DC 20510

April 8, 2016

John Koskinen  
Commissioner  
The Internal Revenue Service  
111 Constitution Avenue, NW  
Washington, DC 20224

Dear Commissioner Koskinen,

We are deeply concerned about the growing number of cases involving taxpayer identity theft and write regarding the Internal Revenue Service's (IRS) efforts to combat this problem facing our constituents and Americans across the country.

As you are aware, taxpayer identity theft fraud occurs when a criminal obtains the name and social security number from an unsuspecting taxpayer. The thief files a fraudulent, often inflated, tax return in an effort to steal the rightful taxpayers' refund. Often taxpayers only become aware of the fraud when they attempt to file a legitimate tax return and discover a return has been filed and a refund issued in their name. For many Americans, being cheated out of their refund is financially devastating.

In recognition of the growing threat of taxpayer identity theft, the IRS created the Identity Protection (IP) Personal Identification Number (PIN) program, a six-digit number issued by the IRS to confirmed victims of identity theft. Once an IP PIN has been issued, it must be included when filing tax returns or the application will be rejected. Given that the IP PIN was a tool meant to *help* taxpayers, we were distressed to learn that the IRS was forced to suspend the program due to security failures related to online retrieval of IP PINs.<sup>1</sup>

In March, the IRS admitted that more than 130,000 IP PIN accounts could have been compromised and in that same release, the IRS also stated that it has stopped 800 fraudulent returns.<sup>2</sup> This is a step in the right direction, but clearly more needs to be done to protect the more than 130,000 tax accounts that may be at risk.

The IRS response to this predatory problem should not just include reactive programs, initiatives designed to help taxpayers *already* victims of tax refund fraud, but the IRS should also consider proactive measures to protect all tax filers *before* tax identity theft occurs. The rising total of data breaches, increasing the availability of personal information to individuals with criminal intent, necessitates the need for the IRS to create effective programs to preemptively stop tax identity theft.

Taxpayer identity theft is a growing problem for the IRS. According to a 2014 Government Accountability Office report, the IRS paid out \$5.8 billion in fraudulent tax returns due to

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<sup>1</sup> United States, Department of Treasury, Internal Revenue Service, "IRS Statement on IP PIN," March 7, 2016. Accessed March 8, 2016. Available at: <https://www.irs.gov/uac/Newsroom/IRS-Statement-on-IP-PIN>.

<sup>2</sup> *Ibid*

taxpayer identity theft in the 2013 tax year.<sup>3</sup> As of September 30, 2015, the IRS handled over 600,000 tax identity theft cases, a 150% increase since 2014.<sup>4</sup>

To combat this problem, the IRS must make certain that taxpayer information and refunds are kept secure against the growing threat of taxpayer identity theft. To that end, we request the IRS respond to our questions regarding their efforts to tackle this damaging practice:

1. What extra scrutiny is the IRS giving to the returns of the 130,000 impacted taxpayers to stop the processing of fraudulent tax returns?
2. What assistance is the IRS providing to taxpayers whose information has been compromised?
3. According to Treasury Inspector General for Tax Administration, IP PIN applications relied on single-factor authentication, leaving taxpayer information vulnerable to cyber criminals. Is the IRS considering implementing a stronger authentication process? If so, what type of stronger identification process is the IRS considering? If not, why not?
4. In addition to authentication, is the IRS considering modifications to the IP PIN program specifically to secure sensitive personal information and fight taxpayer identity theft? If so, what modifications are being considered? If not, why not?
5. Is the IRS considering other measures to ensure unscrupulous individuals do not access, or are able to obtain, taxpayer information in order to cheat the taxpayer and the tax system?
6. What steps is the IRS taking to proactively fight taxpayer identity theft generally so that taxpayers do not lose their refunds to fraudulent filers?

We appreciate your attention to this issue and hope you will address deficiencies in protecting consumers by issuing the strongest security measures to safeguard taxpayer information and taxpayer dollars.

Sincerely,



Jeffrey A. Merkley  
United States Senator



M. Michael Rounds  
United States Senator

<sup>3</sup> United States, Government Accountability Office, "Identity Theft, Additional Actions Could Help IRS Combat Large, Evolving Threat of Refund Fraud." GAO-14-633, August 2014. Accessed February 15, 2016. Available at: <http://www.gao.gov/assets/670/665368.pdf>

<sup>4</sup> United States, Internal Revenue Service, National Taxpayer Advocate, "2015 Annual Report to Congress." Accessed February 15, 2016. Available at: <http://www.taxpayeradvocate.irs.gov/reports/2015-annual-report-to-congress>