August 2, 2012

Douglas H. Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Shulman:

As Chairman of the Committee on Ways and Means Subcommittee on Oversight, I have the obligation to conduct oversight of the Internal Revenue Service (IRS) and investigate improper payments of tax refunds, which the Subcommittee has determined cost American taxpayers as much as $106 billion in recent years. A joint hearing earlier this year by the Oversight and Social Security Subcommittees examined tax fraud related to identity theft, which in Tax Year 2010 affected 2.5 million tax returns and amounted to $12 billion. A new report by the Treasury Inspector General for Tax Administration (TIGTA) suggests IRS continues to struggle to catch what are apparently obvious cases of tax fraud resulting from identity theft.

According to the report, "There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft," the IRS catches only a small portion of fraudulent tax returns and estimates that as much as $21 billion in fraudulent tax refunds will be issued over the next five years – more than $4 billion annually. The amount of revenue lost as a result of the IRS failing to detect this apparently obvious fraud is roughly double the amount of fraudulent refunds the Administration claims it would prevent under its recent budget proposal that would have required an additional $6.7 billion funding for the IRS during the same period. TIGTA examined a wide range of confirmed identity theft cases and identified common signs of fraud. Using these characteristics, TIGTA identified nearly 1.5 million additional tax returns nationwide with potentially fraudulent refunds totaling more than $5.2 billion. Not only were these returns not flagged for review under current IRS practices, the report stated the "IRS uses little of the data from identity theft cases… to detect and prevent future tax refund fraud."

The report goes on to identify numerous examples where criminals used a single physical address from which to file hundreds of tax returns and received significant taxpayer dollars:

- 2,137 returns resulting in $3.3 million in refunds to a home in Lansing, Michigan;
- 765 returns resulting in $903,084 in refunds to a home in Chicago, Illinois;
- 741 returns resulting in $1 million in refunds to a home in Belle Glade, Florida;
- 703 returns resulting in $1 million in refunds to a P.O. box in Orlando, Florida; and
- 518 returns resulting in $1.8 million in refunds to a home in Tampa, Florida.

TIGTA also identified numerous examples of the IRS issuing hundreds of tax refunds, in some cases totaling nearly a million dollars, to single bank accounts. In one case, the IRS allowed $909,267 in tax refunds based on 590 tax returns to go to a single bank account. In another case, $877,725 went to a single bank account based on 587 tax returns.

This report raises concerns over IRS's ability to catch fraudulent returns in cases where suspicious activity appears evident, such as cases involving extraordinary levels of activity connected to individual addresses and bank accounts. While I understand that the IRS struggles to administer an increasingly complex and convoluted tax code (especially the new rules and requirements of the President's health care law), the report raises serious questions about whether the IRS is deploying its resources effectively. On the basis of TIGTA's findings, and as part of the Subcommittee's ongoing efforts to protect taxpayer dollars and conduct oversight of IRS, I ask that you provide the following information by no later than August 24, 2012:

1. If TIGTA can readily identify millions of red flags based upon common tax return characteristics, why are IRS systems not also catching this fraud? How is the IRS using its vast technology budget to protect taxpayer dollars?
2. Does the IRS have a process in place, and if so what is it, to detect multiple tax refunds going to individual mailing addresses and bank accounts, and how does IRS work to examine these tax returns for potential fraud?
3. Is IRS considering changing its rules regarding multiple refunds to single entities in light of today's TIGTA reports?
4. With the majority of the fraudulent tax refunds TIGTA identified issued via direct deposit, is the IRS working with the banking community to establish better safeguards and require proof of identity for account holders?
5. I understand that there are particular cases where bank accounts are in the names of multiple individuals, and it may be legitimate for IRS to deliver multiple tax refunds to a single account. Is IRS aware of any instances in which 590 legitimate taxpayers share the same account?
6. Is the IRS aware of any cases in which a single physical address was used to file more than 2,137 tax returns?
7. Is the IRS aware of any cases in which more than $3.3 million in tax refunds was issued to a single physical address?

8. Is the IRS aware of any cases in which more than 590 direct deposits were issued to a single bank account?
9. Is the IRS aware of any cases in which more than $909,267 was deposited into a single bank account?
10. How can IRS better utilize information from confirmed cases of identity theft to better detect and prevent tax refund fraud? Does the agency commit to doing so?

Thank you in advance for providing this information. If you have any questions, please contact Chris Armstrong at (202) 225-5522.

Sincerely,

CW Boustany

Charles W. Boustany, Jr., MD
Chairman