

Written Testimony of Rep. James B. Renacci, OH-16
Before the House Ways and Means Oversight Subcommittee
April 19, 2016

Chairman Roskam, Ranking Member Lewis, and members of this Subcommittee, thank you for holding this important hearing. I am grateful for the opportunity to testify on the impact of tax-related identity theft on taxpayers in Northeast Ohio and across the country.

Let me start with my personal story. Last May, I received a notice from the IRS stating that they had some questions for me about my 2014 tax return.

I found this troubling because I had not yet filed.

Because of the tax code's complexity, my return requires many forms that rarely arrive before the traditional April 15th filing deadline. So, like every year, I filed an extension for my 2014 return until October.

After receiving that IRS notice in May, I immediately called the IRS, hoping to swiftly confirm that this was just an IRS error. Unfortunately, there was nothing quick about the call. It took almost two hours and I didn't get an answer

My level of concern intensified. And, I realized that something was very wrong.

When I returned to DC for votes, I reached out to the IRS here. I finally got some answers. I learned that—sometime in early 2015—my personal information had been stolen. Someone then used that information to electronically file a fraudulent tax return for my wife and I. That fraudulent return, which included a fake W-2 from the U.S. House of Representatives, claimed a significant refund. And the return instructed that those proceeds go to a bank account outside of the United States.

Thankfully, there were various red flags associated with this fraudulent return, which the IRS flagged before sending payment.

As a taxpayer and tax preparer for almost 30 years, it is apparent to me that identity theft is real. The ability to file for a refund electronically and receive a

refund quickly via bank transfer can also cause significant issues related to identify theft. Let me be clear, I don't want to return to paper returns and checks, but the ease of electronic filing and payments have exacerbated the problem. I know, now more than ever, we need additional safeguards to protect taxpayers.

I personally have heard from many Northeast Ohio taxpayers about their experiences dealing with tax-related identity theft. My district office regularly assists constituents who are ID theft victims. I just never thought it would happen to me.

Of course, this is not just a Northeast Ohio problem. Tax-related identity theft is an evolving criminal activity that targets innocent taxpayers nationwide and robs the Treasury of billions of dollars each year.

I am committed to finding a way to crack down on this growing threat that has devastated millions of taxpayers. So last fall—with Ranking Member Lewis—I introduced bipartisan legislation entitled the *Stolen Identity Refund Fraud Prevention Act of 2015*. This legislation is an important first step towards shielding taxpayer dollars from thieves and reducing the hardships caused by this criminal activity.

I was pleased that two core components from this legislation were included in the PATH Act that passed last December.

One closes the large gap between when employers provide W-2s to their employees and when they are required to provide them to the government. While W-2 and nonemployee compensation statements are due to employees by the end of January, before the PATH Act, the deadline for filing them electronically with the government was not until the end of March. Last filing season, the IRS received over 90 million returns during that 2 month window, where the IRS was unable to verify key information before issuing refunds.

Starting next filing season, the due date for filing W-2 information returns and nonemployee compensation forms with the government will also be the end of January. Closing this window is a key step in enabling the IRS to prevent the continued issuance of billions of dollars in fraudulent tax returns.

Even though that provision does not go into effect until next filing season, I am pleased that some employers that issue large volumes of W-2s were proactive on this issue & agreed this filing season to voluntarily file their W-2s with the government earlier in the year. According to Commissioner Koskinen's testimony last week before the Finance Committee, the IRS received over 25 million early submissions, most of which came by the end of January.

The second provision from my bill included in the PATH Act allows the IRS to require or permit truncated Social Security Numbers on W-2s. Previously, while the IRS by regulation could require truncated Social Security Numbers on Forms 1099, they were prohibited by statute from doing the same for W-2s. This common sense provision will better protect sensitive taxpayer personal information that was previously at risk.

While those two provisions are very helpful to combat tax-related identity theft, there are various other components of the bill that I hope will receive serious consideration by the Committee this year.

One is a centralized point of contact at the IRS for identity theft victims. Last year, I heard from tax-related identity theft victims who expressed frustration with having to repeatedly contact the IRS about their case. Each time they called, they had to explain their situation to IRS employees in various divisions, each of whom may have had no prior knowledge of their matter.

In response to that frustration, during the second half of last year, I understand that the IRS formed a victims' assistance unit to track a taxpayer's identity theft case from start to finish. The provision in my bill would signal that the unit has Congressional support and directs the IRS to maintain this unit to ensure that an identity theft victim has a centralized point of contact.

Another provision is improved taxpayer notification of suspected identity theft. I also heard last year from identity theft victims who had difficulty obtaining information about fraudulent returns filed in their names. Victims deserve to know the extent of their identity theft, including what personal information has been compromised, in order to take action to protect themselves and their

families. Under that provision, when the IRS determines that there has been an unauthorized use of a taxpayer's identity, this provision would require the IRS—as soon as practicable and without jeopardizing an investigation relating to tax administration—to notify the taxpayer.

The last one I will mention would provide taxpayers the opportunity to opt out of electronic filing. As I alluded to above, it's obvious that most tax-related identity theft occurs through electronically filed tax returns. The IRS, however, does not have a program which would allow taxpayers to elect to prevent the processing of an electronic return filed in their name. This provision would change that; it would allow a taxpayer to file an identity theft affidavit to elect to prevent the IRS from processing any electronically filed tax return submitted by the taxpayer or by any person purporting to be that taxpayer.

Mr. Chairman, tax-related identity theft is one of the most pressing challenges that we face in the world of tax administration. This complex and evolving threat requires cooperation from Congress, the IRS, state revenue agencies, and industry stakeholders. I applaud these parties for creating the Security Summit initiative to collaborate in fighting tax-related identity theft & I am pleased to hear that this public-private partnership has resulted in a greater sharing of resources to improve identity theft detection and prevention. While I am aware that not every tax-related identity theft problem is best served with a Congressional solution, I look forward to continuing to work with all stakeholders to curb this growing threat. Thank you for the opportunity to testify and I look forward to working with my colleagues on this Committee to mark-up remaining provisions of the *Stolen Identity Refund Fraud Prevention Act of 2015*.