

Rep. Peter Roskam (IL-6) Question for the Record
Committee on Ways and Means
Oversight Subcommittee
Hearing on Tax Return Filing Season
April 19, 2016

Commissioner Koskinen:

There have been cases where hundreds of refunds are deposited into a single bank account. In response, the IRS has limited the number of direct deposits to a single account to three. But after that the IRS will still mail the checks to the address on file. Is that enough to address the problem?

Internal research suggests that the limit on the number of refunds that may be directly deposited to a single account has had a positive impact on our efforts to deter refund fraud and identity theft. To successfully perpetrate refund fraud, fraudulent filers must have a way to receive the refund payment. When the check is mailed to a physical address instead of direct deposited, it creates an additional challenge for the fraudulent filer. Perpetrators of fraud are exposed to a higher risk of detection and prosecution if they must retrieve refunds from a physical location. In addition, when a paper check based on a fraudulent filing is delivered to a physical address, the check is often received by the real taxpayer and returned to the IRS.

Additionally, there have been schemes where fraudsters obtain Electronic Filing Identification Numbers (EFINs). How many refunds may be sent to a single account if the tax preparer has an EFIN? Could fraudsters potentially use EFINs in order to have more than three deposits sent to one account?

The same direct deposit limit (i.e., no more than three refunds may be sent by direct deposit to a single account) applies to tax preparers using an EFIN. Generally, Treasury's Bureau of Fiscal Service and IRS rules prohibit the deposit of refund checks payable to individual taxpayers to business accounts. IRS rules require a refund check to be in the name of the taxpayer and sent directly to the taxpayer (or an agent if the taxpayer has filed a power of attorney specifically authorizing the agent to receive a paper refund check). Financial institutions are to deposit tax refunds to individuals paid by direct deposit to an account in the name of the taxpayer unless made to a pooled account in limited cases. No exception to these rules exists for tax return preparers. Return preparers cannot receive waivers from these rules from either the government or their customers.

Rep. Erik Paulsen (MN-03) Question for the Record
Committee on Ways and Means
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Commissioner Koskinen:

I am encouraged by the IRS's efforts to combat identity theft through initiatives such as the Identification Protection Personal Information Number (IP PIN) pilot program.

However, it is unclear whether or not the IRS is involved in similar efforts with other agencies, such as the National Institute of Standards and Technology (NIST) and its National Strategy for Trusted Identities in Cyberspace initiative. It is my understanding that NIST has funded its own pilot program through the initiative to create an opt-in, electronic ID (e-ID) program that uses a common identifier – in this case, a face as it appears on a driver's license – and a feature that allows the IRS to alert the taxpayer through his or her cell phone of tax filings and refunds, as a means of confirming that the taxpayer is aware of those filings or refunds.

Both the IP PIN and e-ID pilot programs are underway in the state of Georgia, but it does not appear as though the IRS and NIST are coordinating their efforts.

Is the IRS working with NIST as you both operate pilot programs with the same goal in the same state?

Additionally, following the November 2015 TIGTA report (<https://www.treasury.gov/tigta/auditreports/2016reports/201640007fr.pdf>) that found that the IRS is not meeting NIST ID standards, does the IRS intend to explore the NIST e-ID approach?

The IRS extensively engages with the National Institute of Standards and Technology (NIST) on a variety of issues, including soliciting NIST guidance on appropriate application of NIST standards to IRS web authentication. We also continue to explore options for increasing cybersecurity that emerge through the National Strategy for Trusted Identities in Cyberspace (NSTIC) pilots, industry at-large, or pilots pursued by other government agencies.

At this time, the IRS is not part of the e-ID pilot program because of certain limitations of the pilot program. For instance, the IRS IP PIN is a nationwide program whereas the e-ID pilot program is a relatively short-term, geographically limited program. Also, in general, NSTIC pilots are intended to test new technologies or processes and may not be 100% compliant with today's NIST standards.

However, the IRS is adopting the NIST cybersecurity framework to promote the protection of information technology infrastructure as part of the Security Summit effort. Tax industry participants have aligned with IRS and state tax administrations to work to develop strategies for applying the NIST cybersecurity framework to all organizations within the tax industry.

Additionally, the IRS is developing an enterprise identity assurance strategy across taxpayer contact channels to ensure secure access to tax information for taxpayers across all contact mediums (e.g.

online, phone, in person). The Identity Assurance Strategy is planned for completion by early Fall of 2016.

Rep. Sam Johnson (TX-3) Question for the Record
Committee on Ways and Means
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Commissioner Koskinen:

With respect to PL 114-113 /Division Q/Title III/Sec. 304 (exclusion for wrongfully incarcerated individuals), please provide information with respect to the how the IRS is implementing this section in particular the waiver of limitations.

On February 6, 2016, the IRS updated the Internal Revenue Manual describing internal procedures to implement the new exclusion from gross income under section 139F, including waiver of any provision preventing a claim for credit or refund of any overpayment of tax resulting from application of section 139F if the claim is filed within one year of the date of enactment of section 139F. A wrongfully incarcerated individual, who included in income an award he or she received in a prior year that meets the requirements of the Wrongful Incarceration Exclusion, must file an amended federal income tax return (Form 1040X) for that prior year in order to exclude the award from income and claim a refund. Form 1040X instructions were revised January 2016 to include information addressing wrongfully incarcerated individuals. We are working on a communication strategy which includes a news release and Frequently Asked Questions (FAQs), both of which we expect to release soon.

Also, how is the IRS conducting outreach with respect to the waiver of limitations to ensure that eligible individuals can benefit by the deadline?

The instructions for how to claim a credit for any overpayment of tax resulting from application of section 139F already have been included in the Form 1040X instructions. Additional communications specifically focused on requesting a waiver of limitations on claiming a credit or refund, including Frequently Asked Questions (FAQs) posted to IRS.gov, are expected to be released to the public next month.