UNITED STATES SENATOR
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Opening Statement
Senator Susan M. Collins
Special Committee on Aging

"Tax-Related Identity Theft: An Epidemic Facing Seniors and Taxpayers"

April 10, 2013

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Mr. Chairman, next Monday, April 16th, is "Tax Day"— the deadline for individual income tax returns to be filed. By the close of business Monday, the IRS will likely receive more than 146 million individual income tax returns, nearly 83 percent of which will be eligible for refunds.

These refunds are not a gift from the federal government – they are the return of funds belonging to taxpayers, over-withheld from their paychecks last year. In the coming weeks, millions of American families will be eagerly awaiting these tax refunds, money they may need to pay off debts and plug gaps in the family budget.

But taxpayers are not the only ones eagerly awaiting these refunds. Criminal gangs have figured out that it is cheaper and easier for them to steal taxpayers' identities and hijack their tax refunds than it is to traffic in drugs, rob banks, and fence stolen property.

The Internal Revenue Service reports that the number of identity theft-related tax fraud cases has exploded from approximately 52 thousand in 2008 to close to one million in 2012. And these numbers, shocking as they are, probably underestimate the problem. An analysis by the Treasury Inspector General for Tax Administration suggests another 1.5 million tax returns – with refunds totaling in excess of $5 billion – are being scammed each year.

According to media reports and law enforcement officials, the scam works like this: identity thieves obtain Social Security numbers and other sensitive personal information from sources like hospitals, schools, or assisted living facilities, often by recruiting employees to steal that information. They then use this information to prepare fraudulent tax returns.

The thieves make sure to file early, as soon as the tax filing season opens in January, to increase the odds they can get a refund before the real taxpayer sends in his or her return. The thieves are known to hold what they call “make it rain parties,” where they bring stolen laptops to a motel room with internet access, and work together churning-out scores of fake returns. With each refund worth on average $3,500, the money can add up quickly.

Once the thieves file the fraudulent tax return, the IRS processes it and issues a refund, at times by loading the refund onto a prepaid card like those issued by GreenDot and NetSpend. These cards are like cash, and can be used by thieves without ID or other verification.

You may be wondering why the IRS processes these fraudulent refunds in the first place. I certainly did. The answer is simple: Taxpayers are entitled to file their returns as early as mid-January, but the IRS does not receive the information it needs to verify a taxpayer’s earnings and withholdings until the end of March.

Of course, there are other ways the IRS could figure out it is being scammed. The Inspector General discovered that criminals often use the same physical address for the fraudulent returns they file. For example, in 2010, criminals used the exact same physical address in Lansing, Michigan, to file 2,137 returns, and received $3.3 million in “refunds” for these returns. Another address, in Chicago, Illinois, was used on 765 tax returns, which produced “refunds” of more than $900 thousand.

This is not a victimless crime. Taxpayers who have their refunds hijacked by fraudsters often wait years to get the refunds to which they are entitled. Many are re-victimized year after year, as we will hear from one of the witnesses today. A substantial number become victims of other forms of identity fraud.

Worst of all, these victims are often the most-vulnerable: elderly citizens who earn so little they are not even required to file a tax return. The IG estimates that 76 thousand low-income elderly citizens were victims of tax-fraud identity theft in 2010 alone.

Mr. Chairman, you have been a leader in bringing the nation’s attention to this problem. And your home state has been especially hard-hit by it. According to the Federal Trade Commission, Florida had the highest per capita rate of reported identity theft complaints in the country in 2012.

By that measure Maine has been relatively fortunate, ranking 46th for reported identity theft complaints. But that fact provides little solace – the number of tax-fraud related complaints has risen dramatically in Maine in recent years, in keeping with the national trend.

Mr. Chairman, thank you for calling this important hearing. I look forward to the testimony of our witnesses, and to working together with you to combat the epidemic of identity-theft tax fraud.

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