



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

June 8, 2015

The Honorable Orrin G. Hatch  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20515

Dear Mr. Chairman:

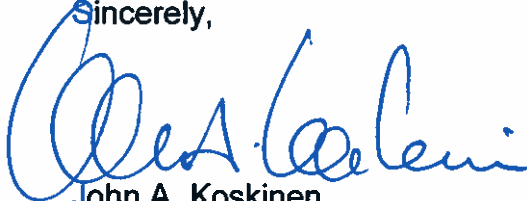
Thank you for your letter dated May 18, 2015 about our use of the Social Security Administration's (SSA) Death Master File (DMF) as a tool to combat identity theft and refund fraud.

I am including the answers to your specific questions in the attached enclosure but wanted to provide you some background in this letter. We have a comprehensive and aggressive identity theft strategy focused on preventing refund fraud, investigating these crimes, and assisting taxpayers victimized by identity thieves. We use the tools that are available to us, such as the DMF, to help meet those challenges. Identity theft criminals have significant resources to devote to their schemes and their methods are constantly evolving. We, in turn, are continually adjusting our filters and processes accordingly. As described in the attached enclosure, we have made significant progress in preventing the refund fraud perpetrated using decedents' tax information, and we update our filters at least annually to adjust to evolving threats.

We are only one stakeholder in the battle against identity theft. Therefore, we recently organized a public/private partnership with representatives from state tax agencies and private industry, such as software vendors, to work on collaborative solutions to combat fraud schemes. Through this partnership, we aspire to stay ahead of the criminals and prevent refund fraud, but our ever-decreasing budget hinders us on this front. Congress can help protect taxpayers and their identities by fully funding the President's 2016 budget request for the IRS.

I hope this information is helpful. If you have any questions, please contact me or a member of your staff may contact Leonard Oursler, Director, Legislative Affairs, at (202) 317-6985.

Sincerely,



John A. Koskinen

Enclosure

## Enclosure

- 1. Does the IRS filter tax returns, making use of DMF data, to detect whether Social Security Numbers (SSNs) used on tax returns correspond to SSNs on tax filings?**

Yes, the IRS checks the validity of SSNs used on a tax return with information from the Social Security Administration (SSA), including the Death Master File (DMF). The IRS also checks other types of taxpayer identification numbers (TINs) used on a tax return against a collection of information such as the ITIN (individual taxpayer identification number) file and the ATIN (adoption taxpayer identification number) file. A discrepancy triggers codes designed to stop the return for a tax examiner's review for appropriate action.

- 2. Does the IRS filter tax returns, making use of DMF data, to detect whether Social Security Numbers (SSNs) used to generate a benefit on tax returns are being claimed by the appropriate taxpayer?**

Yes, the IRS checks the validity of SSNs used on a tax return for a tax benefit with information from SSA, including the DMF. Where a valid TIN is required, the IRS checks the validity of the TIN.

Where a tax benefit requires the taxpayer to submit a valid SSN or TIN on the return to claim the benefit, and the Internal Revenue Code provides the IRS with the authority to correct the return during processing, the IRS will deny the claim when the TIN is not provided or cannot be validated. For example, a valid TIN is required for a personal or dependent exemption, the Child Tax Credit, and the Child and Dependent Care Credit. A valid SSN is required for the Earned Income Credit and the Premium Tax Credit.

- 3. If so, when did the IRS begin using such a filter (filters)?**

The IRS began using DMF information during the processing of tax returns in 1997. In 2011, ID theft filters were programmed to identify returns where the SSA DMF file identified the taxpayer as deceased but the return filed did not indicate that it was the final return because the taxpayer was deceased.

- 4. Has the filter (have the filters) been updated and improved through time?**

Yes. The IRS has updated programming and processes over time to combat the filing of fraudulent tax returns and identity theft. For example, starting in processing year 2012, the IRS placed an indicator on accounts of individuals who were deceased for two or more years as there would no longer be a need for a return to be filed with their SSNs. Returns filed using the SSN of a deceased taxpayer are rejected electronically or reviewed manually if filed on paper. Additional ID theft filters were implemented in 2013 and 2014. Our filters are updated at least annually

and in some cases during the filing season as we identify new characteristics of fraudulent identity theft returns.

**5. How is (are) the filter(s) used to detect whether SSNs of deceased individuals, including dependents, belong on the tax filings of a filer?**

Answers to questions 1 through 3 outline how the IRS uses the DMF and filters to determine the validity of SSNs on a tax return. Information from the SSA helps to identify returns filed with an SSN of a deceased individual. The IRS uses that SSA information along with IRS records and the information provided on the return to determine if the return is fraudulent or needs further review.

A surviving spouse can file a joint return for the taxable year in which the death occurred. The surviving spouse can also file a joint return for the taxable year immediately before the year of death if the death occurred before the return was filed. If no personal representative has been appointed and there is no surviving spouse, the person in charge of the decedent's property must file and sign the return as "personal representative."

When a final return is filed for a taxpayer, the instructions require the word "Deceased" to be added after the decedent's name in the name and address section of the final return. The Form 1040 instructions also request that the date of death be placed across the top of the final return. If the decedent is due a refund, a taxpayer may need to file Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, with the return. If a surviving spouse files a joint return, or a court appointed or certified personal representative files an original return for the decedent, the Form 1310 does not have to be filed. Personal representatives must attach to the return a copy of the court certificate showing the appointment.

If a personal representative has been appointed, that person must sign the return. The surviving spouse also must sign a joint return. If the surviving spouse is filing a joint return and no personal representative has been appointed, the surviving spouse should sign the return and write in the signature area "Filing as surviving spouse." E-file and paper filings are verified against the SSA DMF to compare the date of death records against SSNs reported on the tax return.

**6. How is the IRS measuring the effectiveness of the filters that reportedly were put in place beginning in tax year 2012?**

The IRS conducts an annual review called the Identity Theft Taxonomy that estimates the number of returns and amount of identity theft, including the estimated amount of revenue lost to identity theft refund fraud. We build an inventory of both known identity theft as well as missed identity theft capture opportunities. When the IRS develops its models and project their performance for the subsequent year, we measure each new filter's ability to capture both the known and potential (previously uncaught) identity theft returns. In addition, at the close of a tax year, we perform a

look-back analysis of our identity theft filters to determine performance and make annual adjustments. The IRS also has the ability to make ad-hoc changes as needed such as when we identify new schemes. Every year our filters have stopped more fraudulent refund claims from being paid out than they did in the prior year.

**7. What options are available (and/or are being used) to intercept fraudulent use of the SSNs of the living, where most fraud resides?**

Over the past four years, the IRS has developed a series of filters, scoring algorithms, and clustering methodologies that significantly improved the detection of identity theft returns. All refund returns flow through the Electronic Fraud Detection System (EFDS), the Return Review Program (RRP) and the Dependent Database (DDb). These programs contain complex fraud models and filters developed from historical fraud characteristics used to identify questionable income, withholding, refundable credits and/or filer identity, including traits such as multiple refunds to the same address/bank account.

On questionable identity theft cases, return processing is interrupted and the taxpayer must authenticate his or her identity by accurately answering questions and/or providing specified documentation that only the valid taxpayer is likely to know. If the responder is not able to authenticate, the return processing is discontinued and no refund is generated.

In calendar year 2014, the IRS stopped 1.8 million confirmed identity theft returns, totaling \$10.8 billion in refunds stopped. Additionally, we stopped \$5 billion worth of refunds for other types of fraud, totaling \$15.8 billion of confirmed fraudulent refunds protected.

**8. Do you expect that use of the filter(s) will result in future TIGTA reports of the type issued on September 20, 2013 showing a number of undetected tax returns filed using SSNs that have the characteristic "deceased" of IRS-confirmed identity theft tax returns being driven closer to zero?**

Since a final return can be filed for the year that a taxpayer is deceased, identity thieves will always have an opportunity to misuse those SSNs. We have significantly reduced the number of identity theft returns using deceased SSNs through filters and process changes. However, reaching zero may not be possible without significantly increasing the burden on those filing valid returns for decedents.