

U.S., State Governments Rely on New Software to Combat Tax Fraud

By Joseph M. Donegan on August 7, 2013

As the Internal Revenue Service attempts to close the multibillion-dollar tax gap, a large portion of its resources are being geared to combat tax fraud involving sizable assets. This includes offshore tax havens, tax evasion, and, as of late, unpaid or incorrectly calculated estate taxes. However, recent crimes relating to sophisticated identity theft rings have also bilked the government out of millions of dollars, and federal and state agencies are now implementing several new types of web software to combat these tax law violations.

The IRS will rely upon a combination of complex software from several different providers to ensure that tax returns are legitimate, the Wall Street Journal reports. The business software providers that will assist the IRS in accomplishing these goals include SAS Institute, LexisNexis Group, and International Business Machines (IBM). The various software types work in different ways that complement each other and provide a more accurate and comprehensive tax infrastructure than any stand-alone methods. For example, the SAS software uses publicly available data to verify a person's identity instantly, the Journal explains.

LexisNexis compares all tax-filing information against a database of personal information that the company has been collecting since the 1990s. As an example, the Journal explained that if a state receives a tax return from a person who claims to be employed in one state or have a certain number of children, but the LexisNexis database shows different information, the return will be flagged and individuals may be required to provide proof of their identity.

The IBM software works by "predicting" criminal activity based on individuals' relationships and actions, but the firm failed to elaborate on how the system specifically works.

Like many other government agencies, the IRS has been burdened by budget cuts. However, the agency is attempting to find more creative ways to combat tax crimes through technology and international agreements.