February 26, 2011

Identity Theft and Tax Fraud

There are many forms of identity theft that can deprive you of your tax refund, so you need to beware of them. One of the most common methods is where thieves use your Social Security number and other personal information to deceive the Internal Revenue Service into diverting your refund into their own pockets, according to a Scripps Howard News Service investigation.

The Scripps study of more than 1.4 million ID theft records from the agency's Consumer Sentinel database revealed that the volume of tax- or wage-related identity theft complaints to the US Federal Trade Commission (FTC) more than tripled from 2005 to 2009. On the other hand, there was a decline in the overall number of identity theft complaints to the federal watchdog agency. But it is not known if this is due to the number of identity thefts decreasing, or because most of the cases go unreported to the FTC.

The strange thing is once a particular method of identity theft is highlighted, the number of complaints on that method typically goes down. For example, when banks and financial institutions stepped up efforts to solve cases of stolen credit cards used to run up fraudulent bills, the FTC recorded a drop in the overall complaints related to this type of identity theft.

Other methods of identity theft include purloined tax refunds and using a lifted identity to open new utility accounts. Alarmingly, the number of these incidents is growing. Every year, about 10 million cases of identity theft take place nationwide. This has drawn a significant amount of attention over the last decade.

Here are some other statistics from the Scripps review:

Between 2008 and 2010, the number of identity theft complaints to the FTC fell 20.2% although FTC officials cannot explain the decline. But despite the lower figures, evidence shows that the actual number of identity theft has not really fallen.

A 5,000-person nationwide phone survey by Javelin Strategy and Research in California showed that the crime jumped 12% in 2009.

The FTC says complaints credit card theft fell nearly 32% from 2005 to 2009. Experts say this is due to the financial industry's success at thwarting fraud cases and giving full reimbursements to consumers. Nevertheless, the most common method of identity theft is still opening new credit card accounts using another person's name that accounts for 13.2% of complaints.

The other most prevalent forms include using someone else's Social Security number and other personal information to secure employment (11.1%), and stealing tax refunds or salary (8.9 %).

The three states with the highest number of identity theft complaints were California (230,269), Texas (144,272) and Florida (105,241).

In 2005, the number of tax or wage related-identity theft cases was 11,010. This rose to 33,774 four years later.