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IRS Moves to Contain Tax Cheating

In the continuous fight against tax fraud, the IRS plans to implement new measures designed to reduce identity theft and prevent tax refunds being stolen. However, the National Taxpayer Advocate, Nina Olson cautions that several planned measures might be counter-productive in that they may also penalize genuine taxpayers seeking tax refunds along with tax cheats.

Areas like Tampa has seen a spike in tax refund fraud cases as identities of innocent taxpayers are stolen to claim tax refunds by the hundreds of millions of dollars. It is said that the number of crimes in the streets has even fallen periodically because drug dealers and other criminals stay indoors using their computers to steal tax refunds. Some thieves even go to the extent of contacting the IRS to claim refunds that are delayed or blocked.

And one couple in Largo has sued the IRS hoping theirs will become a class-action lawsuit against the government. They are not alone as hundreds of taxpayers wait for long periods of time and sometimes in vain for their tax refunds. Even US Attorney Robert O'Niell has expressed his frustration at the slow and ineffective screening methods the IRS uses to combat tax fraud.

In addition to these woes, the National Taxpayer Advocate also expressed disappointment in the IRS' inability to attend to taxpayers sufficiently well with the basic services such as answering phone calls and sending letters when issues arise. Compounding the problems is the budget cut imposed on the IRS by Congress as part of cost-cutting measures.

According to Olsen's annual report to Congress, the IRS is "under tremendous pressure to protect Treasury revenue from improper refund claims," and is "understandably deploying front-end verification procedures to prevent suspicious refunds from going out." The report cites the case of the Florida couple who is suing the IRS. Olsen went on to say, "For the 2012 filing season, the IRS plans to implement a set of identity theft filters it developed by analyzing a

population of tax refunds that included 'verified' false returns along with known legitimate returns.”

However, Olsen cautions that such filers are “inherently imprecise” and will likely weed out legitimate tax refunds along with fraudulent ones. At the same time, she feels the exercise may not be effective due to lack of staff workers.

In response to the problem of stolen tax refunds, the IRS is now working with software developers and other relevant parties to weed out fraudulent tax refund cases.