



Tax Fraud
House Taxation Committee
February 13, 2015

Tax Fraud

Tax fraud activity, including identity theft, is one of the fastest growing crimes in the country.

What is and is not Tax Fraud?

- **Tax avoidance** is the legal use of tax laws to one's advantage to avoid paying taxes
- **Tax evasion** is the illegal evasion of taxes – intentionally paying less than one owes
- **Tax fraud** is a deception deliberately practiced in order to secure unlawful gain

Examples of Income Tax Evasion and

Tax Fraud

- Intentionally failing to report all income received
- Claiming to be a resident of another state while residing in Montana
- Purposely not filing income tax returns
- Using questionable tax preparers
- Structuring business for the sole purpose to evade tax
- Preparing documents, books, and records that understate income or overstate expenses
- **Making false or fraudulent claims for refunds**

Fraudulent Claims for Refunds

Fraudulent returns includes:

- Fraudulently filed refund requests using fictitious information and stolen identities

Example of Fraud Scheme:

- Hospital Scheme
 - Appears to originate from either hackers that have gained access to hospital records or dubious medical billers have sold identification information. This “stolen” information is used to file income tax returns.

IRS Identity Theft Conviction Example

Florida Resident Sentenced for Aggravated Identity Theft

On September 23, 2013, Abdul Cunningham, of Rockledge, FL, was sentenced to 144 months in prison, ordered to pay \$560,731 in restitution and a money judgment of \$560,731. Cunningham pleaded guilty on June 13, 2013 to wire fraud and aggravated identity theft. A co-defendant, Jana Harris-Cunningham, pleaded guilty on June 24, 2013 and is awaiting sentencing. According to court documents, the defendants engaged in a scheme to defraud the United States Treasury by filing fraudulent income tax returns and negotiating fraudulent tax refunds using stolen identities. Cunningham and Harris-Cunningham filed 145 false claims with the IRS for tax years 2010 and 2011. **As part of their scheme, both used the stolen identities along with false and fraudulent wage and tax withholding information to prepare fraudulent federal income tax returns.** After filing the false returns, Cunningham and Harris-Cunningham accepted and negotiated reloadable debit cards that they knew contained fraudulently obtained income tax refunds.

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February 13, 2015 • 5

Individual Income Tax Fraud

Federal

Growing problem nationwide

IRS – Fraudulent filed refunds stopped

- 2011 – \$14 billion
- 2012 – \$20 billion
- 2013 (through November) - \$16 billion



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February 13, 2015 • 6

Individual Income Tax Fraud Other States

State	2010		2011		2012	
	Number of Fraud Returns	Amount Prevented from being Refunded	Number of Fraud Returns	Amount Prevented from being Refunded	Number of Fraud Returns	Amount Prevented from being Refunded
Arizona	7,542	\$3,194,000	15,320	\$10,913,000	44,487	\$31,824,000
Arkansas	1,380	\$1,226,000	1,202	\$925,000	1,514	\$1,555,000
Georgia	109,884	\$71,600,000	162,427	\$117,000,000	106,949	\$53,800,000
Louisiana	-	\$2,300,000	-	\$3,400,000	-	\$10,400,000
Maryland	5,094	\$10,383,000	8,917	\$51,319,000	11,708	\$18,548,000
Oregon	-	\$882,000	-	\$4,831,000	-	\$5,555,000
Pennsylvania	1,474	\$1,443,000	752	\$933,000	3,317	\$2,449,000
Utah	169	\$912,000	173	\$329,000	464	\$681,000

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February 13, 2015 ● 7

Individual Income Tax Fraud

Montana			
Tax Year	Number of Fraud Returns	Amount Prevented from being Refunded	Average per Return
2009	64	\$77,000	\$1,203
2010	185	\$100,000	\$541
2011	142	\$227,000	\$1,599
2012	979	\$783,000	\$800
2013	1,275	\$1,482,000	\$1,162
2014 (to date)	99	\$68,948	\$696

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February 13, 2015 ● 8

Efforts to Combat Tax Fraud

- System Edits
 - Built in GenTax system edits to identify potential fraudulent returns
 - Manual identification

- Information Review and Sharing
 - Review of taxpayer filed information: Review historical filed information and 3rd party information agents
 - Information Sharing: The Department is authorized by law to exchange certain information with other state agencies, other states, and the IRS

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February 13, 2015 ● 9

Information Sharing Among States

- Federation of Tax Administrators Suspicious Filer Program
 - States exchange fraud schemes and information. This exchange assists the states in "flagging" the information in each states' tax system. The exchange of information occurs in a secure environment.
 - There are 41 participating states

- Data Exchange Program (DEX)
 - The states that use GenTax as their tax system, exchange fraud information in an electronic, automatic and secure environment
 - There are 13 participating states

- IRS/States Collaboration Program in Development

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February 13, 2015 ● 10

Current Fraud Attempt

- Fraud returns filed using third party software vendors
- Approximately 20 states and the IRS have identified fraudulent returns

What should users of third party software vendors do to help protect themselves?

- Change username and password
- If a problem is suspected contact the vendor

Tax Identity Theft

What should you do?

- Contact the IRS
- File a police report
- Review your credit report
 - Place a "Fraud Alert" on credit reports
- Contact the Montana Dept. of Justice – Office of Consumer Protection

FOR IMMEDIATE RELEASE

February 6, 2015

Montana Department of Revenue alerts taxpayers to tax fraud from identity theft

HELENA – Several attempts to file fraudulent tax returns have been detected for this year's income tax season, the Montana Department of Revenue announced today. The fraudulent filings were recently discovered by the department's fraud detection programs.

"Basically, hackers have stolen people's identities and filed fraudulent tax returns in order to steal refunds," explained Department of Revenue Director Mike Kadas. "The department is vigilant about stopping fraud and is taking extra care with all returns to look for signs of identity theft and fake filings. It is important for Montanans to know that the department's computer systems have not been compromised and remain secure."

Since this year's tax season started on January 20, the department has already stopped \$26,000 in fraudulent refunds. Last year, the department stopped approximately \$1.5 million in fraudulent refunds.

The department will contact taxpayers who have been identified as victims of a fraudulent filing.

Taxpayers who are concerned about their tax refunds or that their personal tax information may have been compromised should:

- Log into the tax software you've used in previous years and change your username and password. Do not use usernames or passwords that you've used for other accounts or websites.
- If you log into your tax software and it says you've already filed for 2014, that's an indication that your identity may have been stolen. If you think there is a problem with your tax software account, contact the software company immediately.

Due to the increase in fraudulent returns from ID theft, the department is thoroughly reviewing all returns before issuing refunds. "We're doing our due diligence and thank Montana taxpayers for their understanding as we work to keep their information safe," said Director Kadas. "This has slowed down our process a little and we appreciate your patience if your refund takes a little longer to process this year."

For more information about guarding against identity theft and what to do if you think you're a victim, go to the Montana Department of Justice's identity theft website at dojmt.gov/consumer/for-consumers/identity-theft/ or their Office of Consumer Protection at (800) 481-6896 or (406) 444-4500.

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FOR IMMEDIATE RELEASE
February 12, 2015

Montana Dept. of Revenue updates taxpayers on tax fraud and refund precautions

HELENA – The Montana Department of Revenue issued an update today on its efforts to detect fraudulent tax returns and stop bogus refunds. The filing of fake tax returns has significantly increased this year largely due to the steady rise of identity theft. Although it appears that many of the fraudulent returns are filed using tax self-preparation software provider TurboTax, the department is seeing other commercial software being used as well. The department's online tax system remains secure and has not been compromised.

Since this year's tax season opened on January 20, the department has blocked 57 fraudulent returns totaling \$64,000. By the end of January last year, the department had stopped 17 fraudulent returns.

The department is reaching out to some individuals to alert those who may have been victims of a fraudulent filing or identity theft. "We're using internal sources and tools to identify fraudulent returns. If we suspect that there is a problem with an individual's return, we are taking the necessary steps to verify that the return is valid," said Revenue Deputy Director Gene Walborn.

The department emphasizes that filing your taxes electronically is not the problem. The problem is identity theft that could have occurred when personal information - like social security numbers, birthdates, usernames, and passwords – was stolen in one of the recent well-publicized security breaches. "E-filing is still a recommended, secure, and fast way of filing your taxes," said department Director Mike Kadas. "Taxpayers need to be vigilant about protecting their personal information in other online systems and frequently changing account passwords and usernames."

Taxpayers who are concerned about their tax refunds or that their personal tax information may have been compromised should:

- Log into the tax software you've used in previous years and change your username and password. Do not use usernames or passwords that you've used for other accounts or websites.
- If you log into your tax software and it says you've already filed for 2014, that's an indication that your identity may have been stolen. If you think there is a problem with your tax software account, contact the software company immediately.
- File early. This helps to preempt fraudulent filings.

Reportedly, 20 other states and the IRS have identified similar problems and are taking comparable precautions to identify and stop fraudulent returns. TurboTax stopped and then resumed processing state tax returns after adding more identity verification steps. TurboTax handles about thirty percent of the self-preparation tax software market, which could make it and other industry leaders like H&R Block targets of fraudsters.

The department would like to remind taxpayers that extra security and review procedures will slow down the speed at which refunds are usually issued. "We're working extra hours and thoroughly reviewing every return and we thank Montana taxpayers for their patience," said Director Kadas.

For more information about guarding against identity theft and what to do if you think you're a victim, go to the Montana Department of Justice's identity theft website at dojmt.gov/consumer/for-consumers/identity-theft/ or their Office of Consumer Protection at (800) 481-6896 or (406) 444-4500.

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