

# GAO Highlights

Highlights of [GAO-16-508](#), a report to congressional requesters

## Why GAO Did This Study

IRS estimates that, in 2014, it prevented or recovered \$22.5 billion in attempted IDT refund fraud, but paid \$3.1 billion in fraudulent IDT refunds. Because of the difficulties in knowing the amount of undetected fraud, the actual amount could differ from these point estimates. IDT refund fraud occurs when a refund-seeking fraudster obtains an individual's identifying information and uses it to file a fraudulent tax return. Despite IRS's efforts to identify and prevent IDT refund fraud, this crime is an evolving and costly problem.

GAO was asked to examine IRS's efforts to combat IDT refund fraud. This report (1) evaluates the performance of IRS's TPP and (2) assesses IRS's efforts to improve its estimates of IDT refund fraud costs for 2014. To evaluate TPP, GAO reviewed IRS studies, reviewed relevant guidance, and met with agency officials. Further, GAO conducted a scenario analysis to understand the effect of different assumptions on IRS's TPP analysis. To assess IRS's IDT cost estimates, GAO evaluated IRS's methodology against selected best practices in the *GAO Cost Guide*.

## What GAO Recommends

GAO recommends that IRS update its TPP risk assessment and take appropriate actions to mitigate risks identified in the assessment. GAO also recommends that IRS improve its IDT cost estimates by removing refund thresholds and using return-level data where available. IRS agreed with GAO's TPP recommendations and will update its risk assessment. IRS took action consistent with GAO's IDT cost estimate recommendations.

View [GAO-16-508](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov)

May 2016

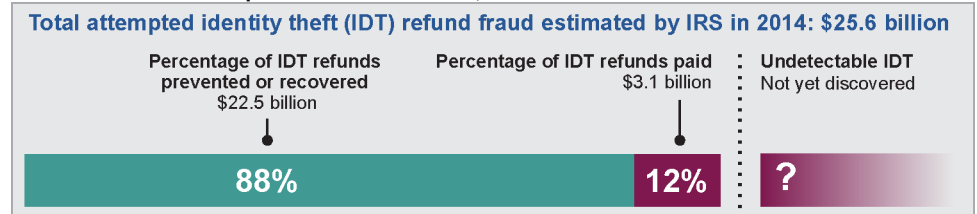
## IDENTITY THEFT AND TAX FRAUD

### IRS Needs to Update Its Risk Assessment for the Taxpayer Protection Program

## What GAO Found

**Taxpayer Protection Program (TPP).** While the Internal Revenue Service (IRS) has made efforts to strengthen TPP—a program to authenticate the identities of suspicious tax return filers and prevent identity theft (IDT) refund fraud—fraudsters are still able to pass through and obtain fraudulent refunds. TPP authenticates taxpayers by asking questions only a real taxpayer should know; however, fraudsters can pass by obtaining a taxpayer's personally identifiable information (PII). IRS estimates that of the 1.6 million returns selected for TPP, it potentially paid \$30 million to IDT fraudsters who filed about 7,200 returns that passed TPP authentication in the 2015 filing season; however, GAO's analysis suggests the amount paid was likely to be higher. Although IRS conducted a risk assessment for TPP in 2012, IRS has not conducted an updated risk assessment that reflects the current threat of IDT refund fraud—specifically, the threat that some fraudsters possess the PII needed to pass authentication questions. Federal e-authentication guidance requires agencies to assess risks to programs. An updated risk assessment would help IRS identify opportunities to strengthen TPP. Strengthened authentication would help IRS prevent revenue loss and reduce the number of legitimate taxpayers who become fraud victims.

#### IRS Estimates of Attempted IDT Refund Fraud, 2014



Source: GAO analysis of IRS data. | GAO-16-508

**IDT Refund Fraud Cost Estimates.** In response to past GAO recommendations, IRS adopted a new methodology in an effort to improve its 2014 IDT refund fraud cost estimates. However, the estimates do not include returns that fail to meet specific refund thresholds. IRS officials said the thresholds allow them to prioritize IRS's enforcement efforts. However, using thresholds could result in incomplete estimates. Improved estimates would help IRS better understand how fraud is evading agency defenses. The *GAO Cost Guide* states that cost estimates should include all relevant costs. Additionally, IRS's estimates of refunds it protected from fraud are based on the *Global Report*, which counts each time a fraudulent return is caught by IRS and thus counts some returns multiple times. IRS uses this data source because it is IRS's official record of IDT refund fraud. The *GAO Cost Guide* states that agencies should use primary data for estimates and the data should contain few mistakes. By using the *Global Report*, as opposed to return-level data, IRS produces inaccurate estimates of IDT refund fraud, which could impede IRS and congressional efforts to monitor and combat this evolving threat.