

Sen. Bill Nelson opening statement
March 20, 2012

Hearing of the Finance Subcommittee on Fiscal Responsibility and Economic Growth
“Tax Fraud by Identity Theft, Part 2: Status, Progress, and Potential Solutions”

Welcome, ranking Member Crapo, witnesses, and those joining us today. Thank you for being here.

We're here today to talk about a serious crime that a South Florida federal prosecutor recently described as an "an epidemic."

"People describe it as cocaine on a card." That's what the prosecutor told a CBS affiliate in Miami. He also said, it's a lot of money and people are "having parties in their homes and training others on how to commit this crime."

Surprisingly, he's not talking about drugs.

What then?

Would you believe he's talking about id-thieves stealing people's tax refunds ?

That's right. And it's evident now that this is a crime that's skyrocketing across the country – and particularly in Florida – over the past year.

There are hundreds of thousands of cases out there now in which unsuspecting and law-abiding taxpayers are having their lives turned upside down by identity theft and tax fraud. Having their refunds stolen, and then delayed while the IRS sorts out the mess, is unfair and unjust.

As this chart shows, the amount of identity theft cases the IRS received between 2009 and 2011 nearly tripled.

The most recent data available from the IRS, which is through March 7, 2012, indicates that agency is tracking nearly 300,000 identity theft cases.

Tax fraud through identity theft has become an ordinary street crime. Instead of stealing cars or selling illegal drugs, more and more criminals are looking with envy at the ease to which tax fraud can be committed anonymously. All the fraudster has to do is file a false return electronically, and then have the tax refund loaded onto a prepaid debit card. They never have to use a real physical address or even open a bank account, so the thief is nearly impossible to track down.

The CBS affiliate in Miami even found that software to enable these kinds of schemes are available online for free. It's gotten to a point where criminals are now getting organized to

institutionalize tax fraud by teaching classes of 50 to 100 people at a time on how to file fraudulent returns.

It's clear this problem is not confined to one area of the country. It stretches from the shores of Miami, up to Detroit, and all the way to the coast of California.

Our local police are on the front lines of this battle, and can be a great resource at a time when the Federal government is undergoing a budget squeeze. Last September, as Tampa's WFLA reported, police there arrested 47 individuals and recovered \$130 million in stolen federal tax refunds from an organized ring of criminals. I am grateful that our local police are not letting the restraints of federal inhibitions stop them from going after these criminals.

The IRS has made strides in modernizing their internal systems to flag potential cases of identity theft-related tax fraud. And the Department of Justice has successfully prosecuted a number of these cases.

But this crime keeps growing. According to the Federal Trade Commission, identity thieves are now using the Federal treasury as their ATM of choice, with the agency citing tax fraud as the leading complaint filed by identity theft victims, as shown in this chart. As you can see, tax-related identity theft is rising while credit card-related identity theft is declining.

With much-needed government services facing serious cuts, we need to make sure taxpayer dollars are safeguarded from theft and abuse. We need to stop these thieves from stealing from taxpayers.

I am grateful that the IRS has given serious attention to this issue, but the reality is we are only starting to scratch the surface. We are here today to not just look back on the past and review what's been done, but also to look toward the future and figure out possible solutions to this problem.

I have introduced comprehensive legislation, the Identity Theft and Tax Fraud Prevention Act. The bill would give the IRS and identity-theft victims the means to better detect and prevent this disastrous offense. I am pleased that the IRS has already implemented some of these reforms. Specifically, the bill:

- Strengthens penalties for tax fraud through identity theft and the improper disclosure of taxpayer information;
- Gives all ID theft victims a unique personal identification number (PIN) to include on their tax return to prevent fraud and avoid tax refund delays;
- Allows identity-theft victims to “opt out” of the electronic filing of their federal tax returns;
- Secures the Social Security numbers of deceased Americans so that fraudsters cannot use them to file fake tax returns;
- Reallocates IRS resources for tax fraud prevention and detection;
- Improves coordination, cooperation, and communication between the IRS and local authorities in criminal investigations; and

- Permanently extends the authority for the IRS to share information with federal and state prison authorities.

With these reforms fully enacted, I believe we can begin to bring this problem under control. We can protect victims and save taxpayer dollars. I look forward to hearing from our witnesses today. Senator Crapo?