

Testimony of

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**Before the United States Senate
Committee on Finance, Subcommittee on
Fiscal Responsibility and Economic Growth**

**Hearing on The Spread of Tax Fraud by
Identity Theft: A Threat to Taxpayers, a
Drain on the Public Treasury**

Wednesday, May 25, 2011, 2:00 pm

Dear Chairman and Senators of the Committee:

I am extremely grateful for the opportunity to provide you with my testimony regarding this atrocious and rapidly increasing identity theft crime spree that not only impacts individual livelihoods but steals millions of dollars from the United States treasury.

I have, for the second time in the past three years become the victim of tax identity theft where thieves have twice filed fraudulent tax returns and received my tax refunds. The first time it happened was in 2009 after I went to my local tax preparation office as I had for the previous 5 years to file my 2008 taxes. However, two days after my return was electronically submitted, I received a phone call from the tax preparer's office stating that the Internal Revenue Service (IRS) rejected the refund citing "Code 0515: SSN was used more than once to file a return."

I felt extremely scared and anxious not knowing how else my identity may have been violated so I immediately took measures to secure all of my personal assets and accounts and followed the steps that the tax office suggested I take as they acknowledged this happened to some of their other clientele the same year. I obtained a police report, filed with the Federal Trade Commission (FTC) and mailed in a hard copy of my return to the IRS. I then called the IRS a week later to verify that they received my paperwork but they referred me to the Identity Protection Specialized Unit who told me a different set of instructions. I needed to draft a letter explaining what happened and re-submit all of the same paperwork I already did (police report, FTC affidavit and a hard copy of my return) to a different address than to the one I already sent. I followed up with numerous phone calls, having to explain my situation and verify my identity over and over again to each IRS agent and it took a painstaking 16 months until I finally received my \$6,604.00 refund. As I relied on this refund to pay some extra bills I incurred, I had to take on a second job to support myself. In addition, all of the energy, time and money spent on combating this issue were increasing as well. I had to take several days off of work just to make appropriate phone calls, secure personal accounts and draft and mail letters certified, return-receipt to each respective address I was given.

By month 14, I was assigned a taxpayer advocate who was incredibly rude and difficult to reach which only added to the stress and frustration of the entire situation. I had to re-submit all of the paperwork I sent out to the IRS, to the taxpayer advocate as she stated that the IRS did not provide her with any information on my situation. Any questions I had I learned to refrain from asking as she clearly had no answers and did not seem willing to assist me any further than just getting me my refund.

The 2010 tax season brought with it a lot of anxiety when I filed. However, luckily I was spared, having experienced no new issues with tax identity theft, minus the continuous waiting for the previous year's refund. I thought that perhaps the worst was over, but I was mistaken.

In 2011, I quickly learned after filing through a family accountant (and not through the same tax preparation office since the first incident of identity theft) that I had fallen victim to this crime once again and this time they managed to steal my State return as well, totaling \$6,335.00.

Unfortunately, the IRS seemed more disorganized this year than the first year it happened to me. Misplacing the phone number to the IRS Identity Protection Specialized Unit, I called the general IRS number and two different agents were unclear of what the Identity Protection Specialized Unit was, stating they had "never heard of it." When I finally got a hold of that unit, they told me I needed to call the Taxpayer Advocate office and provided me with the number. When I called the Taxpayer Advocate office, they told me they could not do anything for me without the IRS "referring me."

As I still await my second stolen refund, I have yet to be referred or assigned to any one individual who could provide me with status updates on my situation. Yet, another tax identity theft victim whom I met back in 2009, was immediately referred to a taxpayer advocate when he found out his refund was stolen this year and he is able to get clarity on his situation on a regular basis, while it took nearly two weeks before I could just get anyone at the IRS to even give me a straight answer about what to do.

Adding insult to injury, I also found out that the red flag the IRS told me they would put on my account back in 2009 was never placed, leaving my information vulnerable to thieves again.

Furthermore, I learned about a Personal Identification Number (PIN) pilot program that the IRS was "aggressively testing," and the IRS agent that told me about it stated "That's strange that you never received one since this already happened to you."

After doing some investigative research I noticed these tax theft incidents started happening since the start of the millennium, making me wonder why the IRS seems so new and disorganized in handling the matter. They continue to treat me as if I am the one to blame – adding even more stress to the situation. There is no clear process in place to prevent this from happening or to provide identity theft victims with the necessary steps they must take to receive their refunds and further protect their identity. Many agents are either very forthcoming with information about the fraudulent return or too secretive about it. The first year, I had to plead with them for simple information on what the thieves obtained, such as the amount of the refund received, the routing number of the direct deposit check and the date that it was issued, so I could thwart any additional potential damage they would do to my identity. And once I was armed with this information I was able to locate the bank, find the date that this amount of money was withdrawn and provide this information to the New York City Police Department (NYPD) who started an investigation, subpoenaed the bank for the video surveillance that showed the man stealing my money. Yet an arrest never happened because the IRS did not (and continues not to) share any information with local law enforcement to ever catch these criminals. How is it that I was able to find information about this criminal faster than the IRS?

My research has led me to conclude that the very process designed to accommodate taxpayers has also become a windfall for thieves. There has been an increase in tax theft as a result of e-filing and direct deposit – each of which does not necessitate the need for validating personal identity when filing. A digital signature to e-file simply requires a "Self-Select Personal

Identification Number (PIN)" which is the taxpayer's Adjusted Gross Income (AGI) from their previous year's filed taxes – information that is easily obtainable but must be entered in the exact dollar and cents amount. Furthermore, direct deposit options only require a bank's routing number in order to release the funds and no further vetting of personal information or identity is required to ensure that the legitimate taxpayers receive their refunds.

So on two separate occasions, identity thieves have found a way to e-file my returns early in the tax season, before I even physically received my W-2 forms in the mail from my employer, and they used direct deposit accounts to steal my refunds. In 2009, they received \$2,049.00 more than I was due and in October of that year I received a notice from the IRS stating that I owed that amount in overpayment – which required me to explain the entire situation all over again.

This year, when the thieves first e-filed they received an IRS rejection message on their first attempt but boldly tried again the next day; got through and were quickly issued a direct deposit refund! What concerns me here is: 1) How did they find out my previous year's AGI when my refund was not stolen during the 2009 tax season and I was no longer getting my taxes done at a tax preparation office?; and 2) How is it possible that the IRS issues refunds before checking the accompanying W2 forms for accuracy? Any individual(s) with bad intentions either working for a tax preparation company or for the IRS can easily make millions of dollars through this ineffective and wasteful process.

These government systems are too antiquated and require a desperate overhaul, and there must be better communication between the various departments within the IRS, especially as this new form of tax fraud is increasing with every passing year. Electronic filing (e-filing) was a system created to save the IRS millions of dollars since every e-filed return costs the IRS \$.19 versus the paper return which costs \$3.29, but I urge you to look at the millions (or billions) of dollars fraudulently being paid out in return to these criminals. Cases have jumped 644% in 2007 from 2004 and an additional 300% since last year, and millions or billions of taxpayer dollars are needlessly and disgustingly being wasted due to this broken and exposed system.

The focus regarding identity theft from a consumer protection standpoint is mostly on credit card fraud. I am only one of now hundreds of clients who were victimized by this tax preparation office that has done little to protect our personal information housed in their office and database. The current state law for New York indemnifies and protects these companies from bearing the responsibility of consumer protection by way of a general arbitration clause which you, as a customer are forced to sign if you need your taxes prepared by one of their professionals. By signing, it states that if you have a dispute with the company you have no legal recourse to file a lawsuit unless you opt out which is a challenge in of itself. Identity theft is not a dispute – but rather violation of consumer protection. Laws need to be updated to reflect and protect its citizens from companies and criminals like these who look for irresponsible measures and general legal clauses to get away with their crimes.

In an era where technology is so prevalent, one would hope that priority would be placed on this issue since millions of taxpayer and government monies are being stolen. Realize the absurdity when the government must pay out twice on a single refund – once to the tax identity thief and then reparation to the legitimate tax payer – and now multiply that by the hundreds of thousands of refunds that are stolen each year!

Since the country has been facing one of the worst economic situations in its history, this appalling travesty needs immediate attention and repair!

I refuse to accept this as my fate as this ordeal is in large part due to the unacceptable lack of security measures that the IRS and the U.S. Government have placed on the personal identities of its taxpayers.

With all that I have mentioned and as an upstanding citizen of this country, I demand change. I demand that legislation be developed and enacted that forces federal and state tax offices to put appropriate measures in place that prevent thieves from taking the People's hard earned refunds away from them and forcing them to fight for their identity and their tax refunds for the rest of their lives. I demand that the U.S. Government spend more time working with federal, state and local law enforcement to target and catch these criminals. And I demand that each state develop and enact the necessary laws that protect consumers from corporate tax preparation offices who have little responsibility in safeguarding their customers' personal information.

Thank you in advance for your time and effort in making these critical changes happen now.