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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Solutions to Tax Fraud and Identity Theft**
As prepared for delivery

The Czech writer and politician Vaclav Havel once said, "I have preserved my identity, put its credibility to the test and defended my dignity. What good this will bring the world I don't know. But for me it is good."

Our identity represents who we are. It represents our morals, our culture, our sense of worth. It represents — as Havel said — our credibility and our dignity. And when stolen from us, it can have devastating consequences.

Identity theft is a serious problem that is growing at epidemic proportions — especially tax-related identity theft. According to the IRS Taxpayer Advocate, tax-related identity theft jumped more than 650 percent between 2008 and 2012. Last year alone, there were 1.8 million incidents of identity theft and fraudulent refunds.

One of the latest victims is Kipp Saile, a 48 year-old horseback outfitter in Pray, Montana, a tiny town just outside Yellowstone National Park. Like many Montana communities, everyone in Pray knows their neighbors. Doors are left unlocked and the only threat of crime involves the possibility of a bear stealing your catch from the Yellowstone River. It is the last place you would expect to find a case of identity theft.

Yet earlier this year, Kipp was in the process of refinancing his home when he got a call from his tax preparer. There was a serious problem. When the preparer tried to submit Kipp's tax return to complete his refinancing, it was rejected by the IRS. According to IRS records, Kipp had moved more than 2,000 miles to Maryland, taken up a new wife and no longer cared for his children.

In reality, of course, Kipp still lived on his ten acres in Pray with his wife of 11 years, Heidi, and their three children. Someone had stolen Kipp's identity and filed a false tax return using his Social Security number. That is where the nightmare began. Kipp has since been forced to spend every day trying to repair the damage to his name and credit.

Needless to say, it has been a stressful experience. It has cost Kipp many a sleepless night and quite a bit of money. The refinance has been put on hold, costing him an additional \$500 a month he would have saved with a lower mortgage.

Instead of helping Kipp clear up this mess, the IRS has made a bad situation even worse. Kipp has been told twice by IRS employees that he wasn't defrauded – the U.S. government was. And at least one IRS employee hung up on Kipp while he was trying to make his case.

It's outrageous. I won't stand for a Montanan, or any American taxpayer, to be treated with that kind of disrespect by an agency that is supposed to serve them.

I'm going to say this very clearly Mr. Miller: Never forget that you and everyone else at the IRS work for Kipp Saile, and all American taxpayers. Your job is to serve them. I certainly hope this was an isolated incident that does not reflect the type of service provided by the IRS.

But there is no excuse for even one rude employee like this, and I intend to find out what you're doing to make sure this type of behavior is not repeated. It's critical that the IRS is ready and equipped to handle cases like Kipp's, because they are increasingly common.

We've all seen the stories in the newspapers and on TV about ID theft. Just last week, *USA Today* highlighted some of the most egregious examples of tax ID fraud, like a case where one address in Michigan was used to file 2,137 tax returns. And there was another case where a single bank account was used to receive 590 direct-deposit refunds from the IRS totaling more than \$900,000.

In recent Congressional testimony, the IRS reported they had identified more than 900,000 fraudulent returns and stopped more than \$6.5 billion in fraudulent refunds in 2011. But that was only the tip of the iceberg.

The Treasury Inspector General for Tax Administration recently reported that another 1.5 million fraudulent returns went undetected in 2011, potentially allowing \$5.2 billion in refunds to be paid. The IG estimated that if tax identity theft were not addressed, it could cost the IRS \$21 billion in fraudulent refunds over the next five years.

Enough is enough. It is time to act. Three weeks ago, members of this committee were briefed on tax reform options that included proposals to help combat tax fraud and tax ID theft. Senator Nelson, joined by Senators Cardin, Schumer and Feinstein, introduced comprehensive tax fraud legislation last week.

I am pleased that the Administration has included several significant tax fraud prevention proposals in its fiscal year 2014 budget. This includes limiting access to death records and omitting Social Security numbers on wage statements.

But there is still much more that can be done. We know tax fraudsters have easy access to taxpayers' Social Security numbers through online databases, hospitals and other businesses that store personal information. We need tougher controls on access to private information, but it needs to be done efficiently without adding more paperwork to the process.

We know that fraud is easier to detect when the IRS can match a W-2 filed by an employer to a tax return before issuing a refund. Right now, that is not happening. We need to cut through the red tape and ensure this information gets to the IRS quickly.

We also know that too often it can be the tax return preparers themselves who are the identity thieves. Proper oversight by the IRS can help prevent this. But we still face obstacles.

The IRS was handed a major setback recently when a federal court ruled against their authority to regulate tax return preparers. The case, *Loving v. IRS*, is ongoing, and I am hopeful that the IRS will succeed on appeal. I will be asking for an update on the status of that case in a moment. We need to consider whether additional legislation is necessary to specifically protect taxpayers from fraudulent preparers.

This committee outlined several ideas recently to re-impose tax preparer regulations. I encourage you to look at those ideas that are part of our tax reform option papers.

I also want to hear today how the IRS is utilizing the tools they already have. *USA Today* recently stated the IRS is “losing the identity theft fight” and criticized the IRS for taking too long to resolve fraud cases.

According to the National Taxpayer Advocate it takes, on average, more than 180 days to close cases. That is unacceptable. The IRS needs to step it up and improve the way it handles tax ID theft once cases are identified.

Victims of ID theft – people like Kipp Saile —are forced to put their lives on hold while their cases languish in red tape.

The IRS needs to speed up prosecution through better communication with federal, state and local law enforcement.

This committee is committed to protecting the American taxpayer. I am hopeful that we will be able to work together to move forward with legislation to stop tax ID theft. We owe that to Kipp Saile and all the victims of identity theft.

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