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# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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August 24, 2015

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Dear Sirs and Madame:

The Committee on Finance has exclusive Senate jurisdiction over federal revenue measures, and thus an obligation to conduct oversight to ensure effective tax administration and integrity of tax return processing. In recent years, identity-theft related tax refund fraud has grown to become an epidemic-level concern to both federal and state tax administrators. Identity-theft related tax refund fraud occurs when someone files a false tax return under the name and Social Security Number (SSN) of an innocent victim for the purpose of obtaining a tax refund from the IRS. Since 83 percent of all tax returns result in a refund, at an average of over \$3,000 per refund, tax-related identity theft has proven lucrative for identity thieves. The Federal Trade Commission reported tax-related identity theft as the number one consumer complaint, nearly doubling from 24.3 percent in 2011 to 43.4 percent in 2012.<sup>1</sup> According to recent IRS estimates, the agency

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<sup>1</sup> *Consumer Sentinel Network Data Book for January – December 2012*, Federal Trade Commission (February 2012) at 12.

prevented \$24.2 billion in fraudulent identity theft refund payments in 2013, but paid \$5.8 billion that was later determined to be fraudulent.<sup>2</sup>

To prevent identity-theft related tax refund fraud, federal and state tax administrators (tax agencies) increasingly depend upon the timely receipt of information from Form W-2, the taxpayer's Wage and Tax Statement, which gives tax agency officials information on a taxpayer's actual wages and tax withholdings. This information is critical in ensuring the accuracy of tax return filings and protecting against tax refund fraud. Unfortunately, because of differences between when tax agencies receive tax returns – and thus claims for tax refunds – and when they receive wage and withholding information from employers, tax agencies are pressed to issue tax refunds without having this critical piece of information. Recent advances in information sharing between the IRS and state tax administrators aimed at jointly combating refund fraud make it all the more important that States have timely access to this data. In addition, when Federal employers fail to provide tax agencies with wage and withholding information in a timely manner, Federal employees are also at an increased risk of identity-theft related tax refund fraud and delays in receiving legitimate refunds, as the State tax agency is unable to tell whether a tax return is stating correct or fictitious wage and withholding information. Recent data breaches involving millions of Federal employees heighten this concern.

There are over 4.1 million federal employees in the United States, most residing and filing state income tax returns on employment income in 41 of the 50 states and the District of Columbia. Unfortunately, state tax administrators are increasingly concerned that the federal government does an inadequate job of filing wage and withholding information with state tax agencies in a complete and timely manner. State tax administrators have reported to us and our staffs that a number of federal agencies routinely fail to file this employee-specific information at all, much less in a timely manner. At a time when identity-theft related tax refund fraud has reached epidemic levels, the federal government should be doing all it can to ensure the integrity of the tax administration process, both at the state and federal levels.

In recent years, the federal government has migrated its 26 payroll systems to four shared-service centers, which include the Agriculture Department's National Finance Center, the Pentagon's Defense Finance and Accounting Service, the Interior Department's National Business Center and the General Service Administration's National Payroll Branch. It is the responsibility of these shared-service centers to collect and transmit federal employee wage and withholding information to the Social Security Administration and to state tax agencies. In light of the importance of this information in combating identity-theft related tax refund fraud, and recent reports that this information is often transmitted late, if at all, we write in an effort to better understand the federal government's performance in this regard. To assist us in that effort, we ask that you provide the following information by no later than Monday, August 31, 2015:

1. Identify the federal agencies for which your center processes payroll information and the date on which each agency submitted employee-specific information for Form W-2 to the center for tax years 2012, 2013 and 2014.

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<sup>2</sup> Identity Theft and Tax Fraud: Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits and Risks, Government Accountability Office, GAO-15-119 (January 20, 2015) at 11.

2. If an agency failed to provide this information to your center for one of these tax years, identify the agency and the tax year, describe why this information was not provided, and whether your center contacted the agency regarding that information.
3. Identify the date on which your center provided each agencies' employee Form W-2 data for tax years 2012, 2013, and 2014 to:
  - a. The Social Security Administration; and
  - b. Each applicable State tax agency (if the information was sent to different states on different dates, break the information out for each state).
4. If your center failed to provide this information to any of the recipients above, identify which recipients were not provided this data, the year it was not provided, and describe why not.

Thank you for your assistance in this matter. Should you have any questions, please contact

[REDACTED]  
[REDACTED]

Sincerely,



Orrin G. Hatch  
Chairman



Ron Wyden  
Ranking Member