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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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June 4, 2015

The Honorable John Koskinen
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Koskinen:

As Chairman and Ranking Member of the Senate Finance Committee, we have an obligation to oversee the Internal Revenue Services' administration of the tax code. One critical aspect of administering the tax code is ensuring the integrity of the tax return and tax refund processes, including the prevention of tax refund fraud. This is an area with room for vast improvement, as tax refund fraud continues to cost American taxpayers billions of dollars each year.

Some of these improper payments are the result of a reported increase in various types of complex tax fraud schemes, including stolen identity refund fraud (SIRF). While the total cost of SIRF during this filing season will not be known for some time, the Government Accountability Office (GAO) reported that the Internal Revenue Service paid at least \$5.8 billion to identity thieves in 2013.¹ Some states have reported a 37-fold increase in suspicious returns during the filing season that recently concluded.²

It is clear that current measures to prevent tax fraud are insufficient and more must be done. To that end, we are focused on actions the Committee can take to help reduce and prevent SIRF and other types of fraud:

- In March, we held a hearing on tax fraud schemes and scams where testimony was offered by the tax commissioners in Indiana and Utah, the Deputy Inspector General for Investigations at TIGTA, the Acting Assistant Attorney General of the Tax Division at the Department of Justice, and the Director of Consumer Outreach and Education in Oregon. These witnesses provided many valuable ideas for preventing tax fraud, which the Committee has been exploring more fully since the hearing.
- In April, we opened a bipartisan inquiry of companies that provide computer and online tax preparation services, as well as major providers of prepaid debit cards. This inquiry

¹ Enhanced Authentication Could Combat Refund Fraud, but IRS Lacks an Estimate of Costs, Benefits, and Risks, GAO-15-119 (Jan. 20, 2015).

² Jonelle Marte and Craig Timberg, *Who's to Blame when Fraudsters use TurboTax to Steal Refunds?* Wash. Post, March 4, 2015, at A1.

has included lengthy questionnaires and document requests. Through this inquiry, we are seeking to learn why fraud has increased in recent years, what measures these companies have taken to prevent and mitigate fraud, and what measures these companies recommend to further reduce fraud. We are also learning more about how these companies interact with the IRS, and how the IRS might improve its communication with the tax preparation community. This inquiry is ongoing and we request the assistance of the IRS in better understanding how the IRS interacts with both tax preparation service providers and refund transfer services, and how it administers fraud reporting and fraud prevention measures with regard to these providers.

- This week the Committee held an additional hearing concerning attacks on the IRS itself and efforts to obtain detailed taxpayer return information from the IRS's on-line Get Transcript application.
- The Committee is examining various legislative proposals that could help reduce the amount of tax fraud and put the IRS in a better position to administer the tax code.
- Finally, the Committee continues to work closely with the Inspector General and GAO as they conduct projects on tax fraud and provide valuable information to the Committee.

Due to the complex nature of tax schemes and the large volume of fraudulent transactions, the Committee cannot fully address this problem on its own. Any solution must involve coordination between Congress, the IRS, state agencies, law enforcement, and the tax preparation industry.

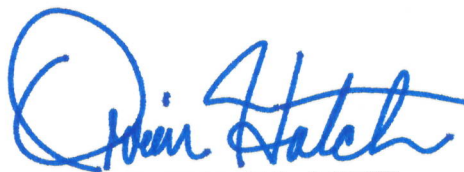
One positive development occurred in March, when the IRS convened a meeting with companies in the tax preparation industry. We understand that the three working groups that emerged from these meetings have been focusing on short- and long-term actions that could reduce tax fraud, and expect to issue recommendations soon. We look forward to learning more about the findings of these working group and discussing how their recommendations can be implemented.

We also look forward to working with you directly in the coming months to focus our efforts on reducing tax fraud. With concerted action, we are confident that there is time to make improvements before the next filing season, but we must act quickly.

Sincerely,



Ron Wyden
Ranking Member
Senate Committee on Finance



Orrin G. Hatch
Chairman
Senate Committee on Finance