

# Refund rip-offs

## Identity theft tax fraud kept accounting firms busy this tax season

By MICHAEL FAIRLIE

A growing number of identity thieves are stealing social security numbers and filing electronic tax returns in their victims' names to collect their refunds.

This method of fraud tops the Internal Revenue Service's "Dirty Dozen" list of tax scams for 2013. Practically unheard of just a few years ago, the problem has ballooned into a whirlwind of financial chaos that has cost the IRS and taxpayers billions of dollars in fraudulent tax returns.

As the numbers of cases grow across the country, Long Island taxpayers are not immune, as accounting firms across the Island reported an increase in tax return fraud this past tax season.

"It seems that in these situations, the fraudulent return is filed early in the year, so that before all of a victim's forms are processed, the criminal can collect the check before anyone catches on," said Carolyn Mazzenga, the partner in charge of the Melville office of Marcum.

Mazzenga noted that the IRS' goal is to get refunds to taxpayers quickly. Because of this, she said, the agency rushes to send them out.

"In these cases, the taxpayer is defrauded, the government is defrauded – it seems like everyone is a victim," she said.

In response to the rise in identity theft incidents, Marcum utilizes methods such as encryption in emails to minimize the likelihood of pertinent information getting into the wrong hands.

Robert O. Mayer, managing partner of MayerMeinberg in Syosset, also noted an uptick in fraud.

"We have had about a half-dozen clients



**CAROLYN MAZZENGA:** Criminals file fraudulent returns early, before the victims' real forms are processed.

this year that when I tried to file their taxes electronically, the IRS said they have already been filed electronically," Mayer said.

Mayer has grown increasingly frustrated with the process and is searching for answers that are not readily available.

"What is [the IRS] doing to check that the return itself represents the proper individual?" he said. "Unless something is put in place in regard to checks and balances, this practice is just going to become more rampant."

In its ongoing battle against identity theft and refund fraud, the IRS has implemented a multi-pronged strategy that encompasses fraud prevention, early detection, victim assistance and investigation of those responsible for the fraudulent activity. The growing problem has prompted the agency to delegate 3,000 people to work on identity theft-related cases, more than twice the amount in 2011. In addition,

35,000 IRS employees are now trained to assist taxpayers with identity theft situations, according to the agency.

"The IRS has improved its handling of these issues in recent years," said Christopher J. Arato, a partner at WeiserMazars in Woodbury, who has dealt with five such incidents since 2009. "[The IRS] has a Form 14039, which is an identity theft affidavit that gets the process started. From there, the IRS creates a case and starts an investigation into the situation."

The Uniondale office of the accounting firm Friedman is currently dealing with six cases of this nature, according to David P. McKelvey, a tax and business consulting partner. McKelvey holds power of attorney for the majority of his clients, which makes it more difficult for criminals to take advantage of them, he said.

"Typically, when a person files a fraudulent tax return, and the IRS suspects a problem, it will send a package requesting

information to verify the return to the address that appears on the return," he said.

This is a problem when that address belongs to the crook, but with power of attorney, the IRS will also send that package to McKelvey, who is able to immediately identify the fraud and contact the IRS.

"Although that stops the dishonest individual from collecting the return and protects the client, the client still has to deal with a pile of paperwork, which can hold up the innocent victim's tax return for over a year," McKelvey said.

According to an IRS spokesperson, individuals can do their part to prevent their social security number from falling into the grasping claws of identity thieves. Scammers posing as IRS officials often call or send emails requesting social security numbers and other personal information; the IRS will only request information through a sealed, official letter via snail mail, according to the agency spokesperson.