

AN ALERT FROM THE BDO FEDERAL TAX PRACTICE

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FEDERAL TAX



SUBJECT

MANAGING AND PREVENTING TAX-RELATED IDENTITY THEFT

SUMMARY

Tax-related identity theft is rapidly increasing. Indeed, in February 2016, IRS identified at the top of its 2016 “dirty dozen” list of tax scams “identity theft,” “phone scams,” and “phishing” and reminds taxpayers of the need to guard against such scams and to protect personal information. (*IRS Wraps Up the “Dirty Dozen” List of Tax Scams for 2016*, IR-2016-29, February 19, 2016.)

DETAILS

What is tax-related identity theft?

Tax-related identity theft comes in several forms. “Identity theft,” as the IRS indicates, generally involves someone stealing an individual’s social security (or tax identification) number in order to file a fraudulent return claiming a fraudulent refund. Taxpayers typically discover the identity theft when attempting to e-file a tax return only to learn that a tax return has already been filed using the taxpayer’s social security number. One may also learn of identity theft by receiving a letter from IRS indicating that the IRS has identified a suspicious return using the taxpayer’s social security number. In many cases, the fraudulent filer claims a refund in an amount less than the payments or credits on the account, which is a flag to the IRS.

“Phone scams,” according to the IRS, involve bogus phone calls from those attempting to extract undue payments from taxpayers. Victims are often threatened with arrest, deportation, and license revocation.

“Phishing” involves phony e-mails regarding fake and often unexpected tax balances due or refunds; often these include links to sham websites seeking personal information. As the IRS notes, the agency “will never send taxpayers an email about a bill or refund out of the blue.”

CONTACT:

TODD SIMMENS
National Managing Partner of Tax
Risk Management, Woodbridge, NJ
(732) 491-4170
tsimmens@bdo.com

CATHY STOPYRA
Managing Director of Account and
Interest Services, Woodbridge, NJ
(732) 734-1009
cstopyra@bdo.com

ALLISON GOODHARTZ
National Tax Para Professional,
Woodbridge, NJ
(732) 491-4173
agoodhartz@bdo.com

THINK YOU'RE A VICTIM OF IDENTITY THEFT? TAKE ACTION.

PROBLEM: You attempted to e-file a return but it was rejected because another one has already been filed.

WHAT TO DO: A paper return should be filed and should include Form 14039, Identity Theft Affidavit. In the case of a joint return, one Form 14039 for *each* spouse and a copy of identification for *each* spouse should be included. If the e-filed return was attempted on or near the due date, the paper return should be sent within the five-day cure period (IRS Publication 4164). As always, a traceable delivery service (e.g., U.S. certified mail, UPS, or Federal Express) should be used. Thereafter, the IRS's identity theft line should be contacted at 800-908-4490 (8:00 a.m. to 8:00 p.m. local time).

PROBLEM: You received a notice from the IRS indicating a potentially fraudulent return was attempted to be filed on your account.

WHAT TO DO: Respond immediately by calling the number provided in the letter.

Important: The IRS will generally contact taxpayers only by mail. The relevant IRS letters / notices in cases concerning tax-related identity theft include:

- ▶ a 5071C letter (telling a taxpayer that the IRS received a tax return with his/her name and/or social security number and needs to verify identity),
- ▶ 4883C letter (informing a taxpayer that IRS needs more information to verify identity in order to process the tax return accurately),
- ▶ 12C letter (advising that IRS has received the tax return; however, additional information is needed in order to process the return),
- ▶ and 4310C letter (IRS Identified ID Theft Post-Adjustment Letter).

WHAT MORE CAN YOU DO?

- ▶ **Request an Identity Protection Personal Identification Number (IP PIN).** Request an IP PIN from the IRS. This is a six-digit number assigned to eligible taxpayers that helps prevent the misuse of one's Social Security number on fraudulent federal income tax returns). Upon request, the IRS will issue a CP01A Notice with the IP PIN.

Important: Currently, *IP PINs are available to any victim of tax-related identification theft and any resident taxpayers of Florida, Georgia or the District of Columbia (the three jurisdictions with the highest per-capita incidents of identity theft)*. IP PINs are currently issued only in January, and each IP PIN user receives a different IP PIN each January. IP PIN correspondence must be retained; they are difficult to have reissued. More information on IP PINs.

- ▶ **Request a copy of the fraudulent tax return.** A victim of identity theft, or an authorized individual, may request a redacted version of a fraudulent return that was filed and accepted by the IRS using your name and SSN. Read more on how to get your copy here.
- ▶ **Contact law enforcement.** File a police report with your local law enforcement office.
- ▶ **Report it to the Federal Trade Commission (FTC).** File a report online or by calling 877-ID-THEFT.
- ▶ **File an IRS Impersonation Scam Report with the Treasury Inspector General for Tax Administration.** Fill out the online form or call 800-366-4484.
- ▶ **Read and bookmark the following IRS materials:**
 - a. IRS Identity Theft page
 - b. Identity Theft Prevention and Victim Assistance (IRS Publication 4535)
 - c. Identity Theft Information for Taxpayers (IRS Publication 5027)

- ▶ **Activate a fraud alert and/or a credit freeze.** Contact the three credit bureaus and activate a fraud alert and/or a credit freeze. A fraud alert requires lenders to take extra precautions in verifying your identity before granting credit in your name. A credit freeze prevents lenders from seeing your credit report unless you specifically grant them access. To activate either one, or both, contact:
 - a. Equifax: [online](#) or by phone 800-766-0008
 - b. Experian: [online](#) or by phone 888-397-3742
 - c. TransUnion: [online](#) or by phone 800-680-7289
- ▶ **Be patient.** The IRS has made great strides in identifying tax-related identity theft cases and in taking early measures to assist in prevention; however, the entire process in resolving a taxpayer's account will take time. Remember also that the IRS will likely freeze any expected refund while it completes such resolution.

BDO INSIGHTS

General Tips For Preventing Identity Theft

- ▶ Minimize personal information in purses or wallets; consider an RFID blocking wallet; retain copies of such information
- ▶ Shred any documents with personal information
- ▶ Avoid giving personal information by telephone
- ▶ Protect computers with firewalls, antivirus protection, and security patches
- ▶ Refrain from opening or clicking links to unsolicited e-mail
- ▶ Monitor accounts and review financial statements frequently
- ▶ Check that mail has not arrived previously opened
- ▶ Review credit reports frequently
- ▶ Consider an identity theft protection service

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