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Report Finds Two Kinds of Tax Fraud Have Spread

By [LYNNLEY BROWNING](#)

Thieves are increasingly obtaining fraudulent tax refunds by using the identities of lawful taxpayers, according to a government watchdog report released Wednesday.

The report, an annual document from the Treasury inspector general for tax administration, also noted a rise in the theft of taxpayer identities by people seeking to work without paying federal taxes on their wages. The [Internal Revenue Service](#) rarely prosecutes such cases, the report said.

Taxpayers who fall victim to either scheme face an uphill battle in sorting things out with the I.R.S., the report said. That is because the agency's policy is to investigate identity-theft cases only if they are accompanied by "other criminal offenses having a large tax impact." Employment-related identity scams tend to involve lower-wage taxpayers, and confidentiality rules prohibit the I.R.S. from contacting employers to alert them.

The 41-page report painted a picture of a startling rise in identity-theft cases involving taxes, using data from the Federal Trade Commission, which maintains an identity-theft clearinghouse.

From 2002 to 2007, the report said, the number of fraudulent tax returns filed as a result of identity theft increased more than sixfold, to nearly 21,000, from just over 3,000.

Employment-related identity theft more than doubled during the same period, to more than 35,000 instances.

Over all, according to the F.T.C. data, nearly a quarter of the identity-theft complaints that the commission now receives are tax-related.

Calling the thefts "a growing national problem," the Treasury report urged the I.R.S. to come up with a comprehensive strategy to combat the fraud and said the agency had not "placed sufficient emphasis on employment-related and tax fraud identity-theft strategies."

In a response included with the report, the I.R.S. agreed that it could do more to stop fraudulent refunds. The agency has copious warnings on its Web site about identity-theft scams, which typically involve the use of someone else's Social Security number.

But, citing the rules against sharing taxpayer information, it disagreed with the report's recommendation that it fight employment-related identity theft by contacting employers whose workers appear to be using someone else's identity.

The F.T.C.'s clearinghouse is open to all law enforcement agencies but is generally not used by the I.R.S., which said in its response that the commission's identity-theft data was often not complete enough to warrant starting a criminal investigation.

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