

It's a Taxing Time

by Vic Berecz

Nobody likes taxes ... and many despise all taxation. My repeated statement that "I pay my taxes willingly." has elicited more mail than most of my other ramblings combined. None of the mail was positive, much was self-serving ... like "if you're so willing to pay taxes, pay mine too." Well, the reality is *nothing is free* and *we are not self-sufficient* so *we do need government* and the services provided by government must be paid for. That means taxes ... some of which are actually user fees, but let's not nit-pick about semantics today. Rather, let's get down to yet another real-world tax problem stemming from humanity's obsession with greed.

My wife Joan has volunteered in the *AARP Tax-Aide* program for over a decade. *Tax-Aide* is a free service, staffed by volunteers and co-sponsored by the AARP Foundation and the IRS, primarily intended for low-to-moderate income seniors, but which actually serves a broader clientele. For the last two years I have helped her manage the program's local tax preparation site. There, with our team of volunteers who have been tested by the IRS for competency and vetted regarding standards of conduct, we prepare 300-400 tax returns a year ... mostly for retired seniors. Among them, typically, are 60-75 shut-ins who team members visit in their homes or care facilities.

This year an on-going *fact-of-life* ... TAX FRAUD in a modern form ... has become a major issue for us and for our clients. The IRS has seen tax fraud associated with "identity theft" mushroom around the country ... but it is at its worst here in Florida where there are so many seniors with impaired physical and/or mental abilities. Some view all tax fraud as a "Robin Hood" style crime ... just *putting it to the man*. But, in reality, this new breed of tax cheats are nothing more than plain old thieves who belong in the slammer. It's a damn shame that honest people have to deal with a major hassle and have their tax refunds delayed due to these predators.

Here are some thoughts on this tax fraud problem and how you can minimize the risks of you (or your elderly parents) being victimized.

The Problem. The mechanisms associated with identity-theft tax fraud were nicely summarized in a graphic published by the *Fort Myers News-Press* on March 25. It is reproduced on the following page. The graphic illustrates two basic approaches to identity-theft tax fraud: a fraudulent worker and a fraudulent tax filer. Our concern here is the fraudulent tax filer ... that's the person who obtains a name and Social Security number (SSN) and electronically files a fictitious tax return intended to get them a quick refund from the IRS. The result is that when the real taxpayer's return is filed electronically, it is rejected. Last year we had one return rejected of the 344 we prepared due to "SSN previously filed." This year of the 258 returns completed through March 21, we've already seen this rejection rationale five times. While that's only 2%, it's still way too high, because the most likely cause of these rejections is identity-theft tax fraud.

Identity Stolen. As the *News-Press* graphic notes, the "name and Social Security number of a taxpayer is compromised and sold to a criminal enterprise." It sounds so simple to avoid compromise ... just protect your Social Security card ... but, in truth, it isn't simple. In fact it's almost impossible. I "hear tell" that Name/SSN combos can be purchased on the Internet for as little as \$5. These mostly foreign fraud artists collect their database from a variety of sources. Just think how often seniors must show their Medicare card to low-paid help in a provider's office. The Medicare number and Social Security number are the same. It's a system begging

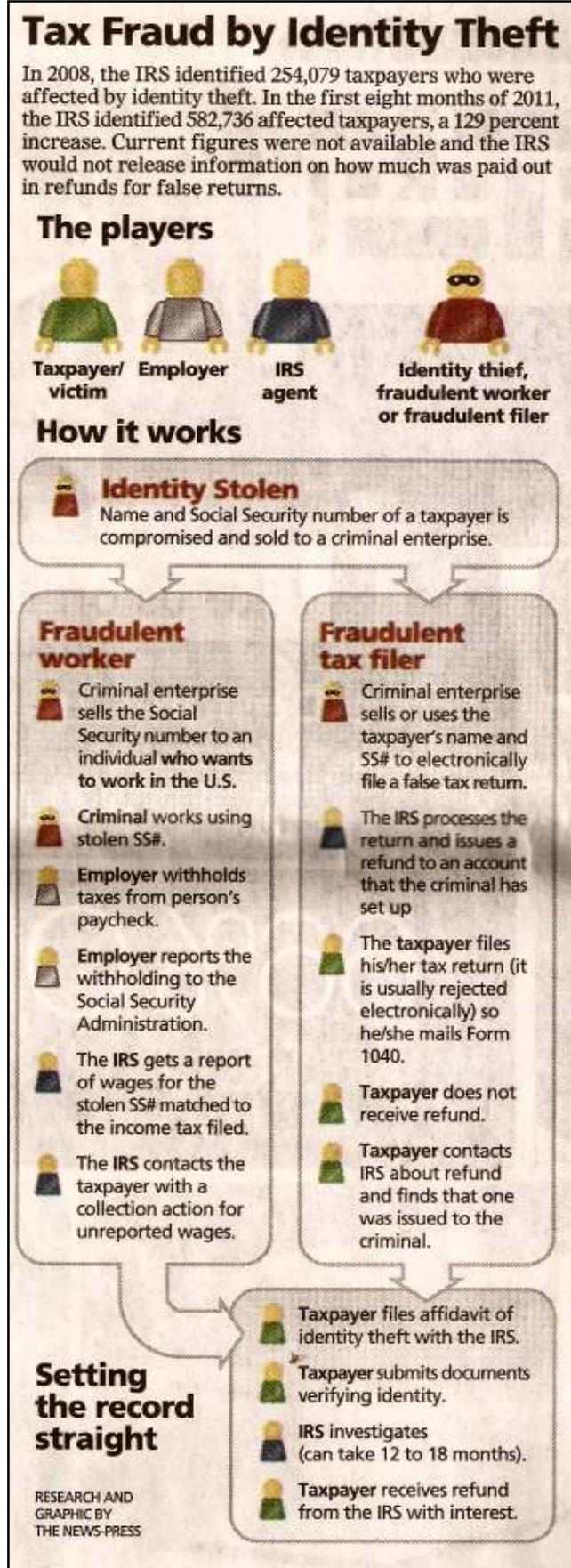
for abuse. I'm willing to grant that most seniors cannot adequately protect their SSN. That includes me. So be it. There are other downstream protections that can and should be invoked.

Why Get Refunds at All? Bank-robber Willie Sutton noted about why he robbed banks, "That's where the money is!" Well, if most tax refunds were small or non-existent there wouldn't be any money in chasing fraudulent refunds. Also, note that one of the two big problems for an identity-theft victim is the long delay in getting the refund due them. If no refund is due, that part of the problem goes away.

Most tax preparers have long counseled taxpayers to adjust their withholding (or estimated tax payments) to minimize or eliminate refunds. The rationale? It makes no fiscal sense to give the government an interest-free loan of your money. Now there's another reason ... tax fraud by an identity thief won't impact your budget.

Do we need quick refunds? The IRS prides itself on how it has shortened the time from electronic filing until the refund is deposited in the taxpayer's (or thief's) bank account. The way they accomplish this is by doing only minimal checking of a return before issuing the electronic funds transfer. That checking is not much more than name and SSN ... though in their database they have the whole gamut of W-2s and 1099s that will need to be checked later. Why not check those before issuing the refund? That would eliminate almost all of the fictitious return fraud. Ask the IRS, and they'd probably say the American public demands and deserves the quickest possible refund. Probably true ... too many of us have become accustomed to instant gratification. But, maybe when it facilitates crime we should think again about how fast we need that refund!

Refund Anticipation Loans. To me, paying a high rate of interest for a short-term



loan to speed a tax refund is dumb. Think about it ... you're paying interest to get money that you loaned the government interest-free. It is notable that one recent tax fraud arrest here in Florida involved an on-line tax preparation firm issuing pre-paid debit cards in anticipation of tax refunds. These were then stolen from the mail boxes of shut-ins and could be used by the thief like *bearer bonds* of old. This sounds like a scam built upon a scam!

Reasonableness Checks. Fifty-plus years ago when I first began writing computer software, one of the first lessons learned was to include reasonableness checks in my programs ... errors like an employee working 400 hours in a week (a slipped decimal point) or the weight of a helicopter component being zero ought to be caught up-front. Apparently the IRS does not believe in checking the reasonableness of tax returns until it's audit time. Actually, some well-placed reasonableness checks would be helpful in addressing both the *fraudulent worker* and *fraudulent tax* filer aspects of identity theft. For instance, what is the likelihood of a 90-year-old retiree who hasn't had a W-2 in his tax return for a quarter-century taking a job as a farm laborer?

The Bottom Line. There's much that we can do as taxpayers to help with this identity theft tax fraud problem. First and foremost plan your withholding or estimated tax payments so that you either receive a small refund or have a small payment to make. If most people had no refunds and reasonableness checks were employed, the incentive for this type of crime will soon be gone. Besides eschewing refund anticipation loans, taxpayers as good citizens should press their Congressional representatives to make certain the IRS does both document checks and reasonableness checks before issuing any refund. Congress pays their salaries (with our money) and still has a lot of clout regarding the operation of Federal agencies. Finally, I must reiterate ... we need taxation because we need Government services. We may differ on just which services the various levels of government should provide. But, I'm sure that we can all agree that our tax code needs a major revamping. I would propose that ease of use and avoidance of fraud should be two of the concerns addressed as Congress develops those new tax laws.