



Internal Revenue Service

# Criminal Investigation

# Tax Refund Fraud and Identity Theft



IRS Criminal Investigation  
Special Agent Chad Cutting

# Internal Revenue Service Criminal Investigation

Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

# Office of Refund Crimes Mission

To support the CI mission by identifying and developing criminal tax schemes for the purpose of referring and supporting high-impact criminal tax and related financial investigations. This mission will be achieved through the use of human and artificial intelligence and via collaboration with stakeholders.

# What is Refund Fraud?

Refund fraud results from the filing of federal income tax return(s) that are supported by false information/statements with the intent to defraud the government.



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## Refund Fraud Programs

- **Questionable Refund Program (QRP)** Schemes consist of individuals filing tax returns claiming false income tax refunds that are generally based on false Federal income tax withholdings or false refundable credits, for example Identity Theft Returns. These are generally not legitimate taxpayers and returns are filed for the sole purpose of defrauding the government.
- **Return Preparer Program (RPP)** schemes consist of Abusive Return Preparers that prepare false income tax returns frequently for large numbers of taxpayers.

# Detecting Refund Fraud

- CI has 4 Scheme Development Centers (SDCs) whose primary mission is detecting refund fraud.
- SDCs have uncovered numerous QRP/RPP and Identity Theft refund fraud schemes
- CI has dedicated one SDC to Identity Theft. This location processes and researches ID Theft leads received from the field.

# Identity Theft

- The FTC estimates that as many as 9 million Americans have their identities stolen each year.
- Stolen Identities are obtained through various methods:
  - Dumpster Diving
  - Skimming
  - Phishing
  - Theft
  - Pre-texting

# Tax Refund Identity Theft

- Occurs when someone uses your personal information without your permission to file a tax return.
- Identity Theft can affect taxpayers in two ways:
  - Refund-related
  - Employment-related or Income-related



# Current Trends in Identity Theft

- Refund Schemes perpetrated by prisoners
- Stolen dependants for additional credits (EITC)
- Use of identity by prior year tax return preparer
- Use of identities of those not likely required to file a Federal tax return
- Use of non-wage and withholding tax returns (i.e. Interest Income, Schedule D, Schedule C)

# Identity Theft Statistics

|                                    | <b>FY 2013*</b> | <b>FY 2012</b> | <b>FY 2011</b> |
|------------------------------------|-----------------|----------------|----------------|
| <b>Investigations Initiated</b>    | 1152            | 741            | 276            |
| <b>Prosecution Recommendations</b> | 929             | 456            | 218            |
| <b>Indictments/Informations</b>    | 785             | 387            | 165            |
| <b>Sentenced</b>                   | 301             | 181            | 80             |
| <b>Percent to Prison</b>           | 83.4%           | 90.6%          | 100.00%        |
| <b>Avg. Months to Serve</b>        | 40              | 44             | 44             |

\* FY2013 numbers are for the period 10/1/2012 – 6/30/2013



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# Coordination Amongst IRS Functions

- Treasury Checks
- Prepaid Cards
- ID Theft Lists
- Filter Updates



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# Identity Theft Enforcement Actions

January 2013



# Prepaid Cards

- The use of prepaid cards in ID theft schemes has increased significantly.
- Hundreds of billions of dollars are loaded to Open-Loop prepaid cards each year.
- Numerous government programs employ prepaid cards to distribute benefits. Past estimates indicate such activity is in the billions each year.
- The prepaid cards add a level anonymity.

# Enforcement and Partnering

- **Stolen Identity Refund Fraud (SIRF)**
  - On September 20, 2012, DOJ Tax issued Directive 144, Stolen Identity Refund Fraud
  - Provides Federal law enforcement officials with the ability to timely address a subset of identity theft cases.
  - Specifically focuses on identity theft in the context of fraudulent tax refunds and provides for streamlined initiation of these investigations and prosecutions.

# Enforcement and Partnering

- **Law Enforcement Assistance Program (LEAP)  
Identity Theft Victim (Formerly know as the Identity Theft  
Victim Disclosure Waiver Process)**
  - Local law enforcement agencies play a critical role in combating identity theft. As part of this collaborative effort, IRS developed the Identity Theft Victim Disclosure Waiver Process
  - On March 29, 2013, the program was implemented Nationwide.
  - This program provides for the disclosure of federal tax return information associated with the accounts of known and suspected identity victims of identity theft with the express written consent of those victims.

# ID Theft Case Summaries

- **Three Utah County men indicted for tax fraud**

Three Utah County men are facing federal charges after using the names and Social Security numbers of deceased people to file false tax returns and get refunds from the IRS.

Joshua Garrison and Nathaniel McGee of Provo and Kaden Ashton of Orem are each being charged with making false claims, wire fraud and aggravated identify theft.

The three men were indicted in federal court after a investigation by the IRS. The indictments allege that the men obtained personal information of people who had died in California from a website that listed the names, address and Social Security number of deceased individuals.

All three men received funds from the IRS ranging from \$1,046 to \$2,624 after they each filed five individual tax returns.

Garrison, McGee and Ashton face five counts of each charge. The potential penalty for each false claim charge is up to five years in prison and a \$250,000 fine, while the sentence for wire fraud could be up to 30 years in prison and a \$1 million fine. Identify theft carries a two-year minimum prison sentence, meaning if convicted of all 15 charges each defendant could possibly face 185 years in prison and \$6.25 million in fines.

McGee and Garrison appeared in court earlier this month and both entered not guilty pleas to the charges. A jury trial is set for Jan. 7 for Garrison. There has not been a trial set for McGee yet. A warrant for Ashton's arrest is outstanding.





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## Questions

