

TAX FRAUD – THE NEW CHALLENGE

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“Old School” Fraud

- Fraud used to be quick and easy to identify. The perpetrators used very simple methods and repetitive data.

Old School Fraud

- Create a new identity
 - Make-up a name, SSN and W2
 - Use fraudster's real address or a PO Box opened for this purpose
- If using real taxpayer information
 - Deceased
 - Inmate

Old School Fraud

- Majority were paper returns
- Bogus figures
 - Usually round numbers
- Several returns submitted at same time
 - Handwriting or typing match
 - W2s match
 - Figures on returns match
- Typed, printed, or handwritten W2 showing withholding
 - Only one W2 submitted
 - No state account number or state account number on W2 is actually the FEIN
 - Local tax not shown, or amount wrong
 - Social security and Medicare income incorrect

Old School Fraud

- Single return, not joint
- Claim higher refunds
- High withholding versus wages percentage
- Paper refund warrant usually requested
- If direct deposit requested:
 - Address on return does not exist
 - Same bank account used on several returns

New Age Fraud

- Fraud tactics have become more sophisticated in the last few years
- Now it is more difficult to systematically identify fraudulent returns

Identity Theft

- Most new fraud involves identity theft
 - Always know:
 - Name
 - SSN
 - Usually know:
 - Date of birth
 - Address
 - Sometimes know:
 - Business or industry where the taxpayer is employed
 - Approximate income
 - Spouse

Identity Theft Challenges

- If the fraudster knows the real taxpayer's information, it is difficult to systematically identify the fraudulent return without sophisticated edits
- The real taxpayer may be negatively affected

Most Recent Scheme – Fraudulent Returns Using Information Solicited from Unsuspecting Individuals

- Perpetrated by an organized group of 4-6 individuals
- Interviews took place in some of the worst parts of metro Denver- People would scatter and close their windows and not answer their doors
- Arrived unannounced mid-morning--there would be half dozen vehicles Escalades, Cadillac, Suburbans out front
- Windows in the houses were taped over
- Before they would answer the door there would be whispering and movement
- Targets were never home and their whereabouts were always unknown

Most Recent Scheme

- Returns filed took advantage of Federal refundable credits--i.e. EIC and Child Care
- This minimizes Colorado's exposure
- Lower income amounts were used in order to obtain federal refundable credits
- Since Colorado returns start with Federal Taxable Income, the state refunds were lower

Most Recent Scheme

- Perpetrators were aware excessive or inordinately high withholding credits trigger edits or review
- 300 returns filed electronically
- Refund range was \$300-\$700
- 10 refunds issued onto to pre-paid debit cards which makes “following the money” almost impossible
- However, 6 were “intercepted” as taxpayers owed state agencies or IRS

Most Recent Scheme

- The “tax preparer” field on the electronically filed returns listed addresses in metro Atlanta
- Interviews with taxpayers revealed they were contacted by a friend or relative of an opportunity for money due to them by the IRS and State
- Taxpayers were contacted in bars or at parties - example photographer who takes pictures at these functions would pitch this “opportunity” when he obtained their contact information
- Perpetrators held themselves out to be tax preparers and the majority of the taxpayers were low-income, unemployed, welfare recipients, disabled i.e. didn't normally file tax returns
- Some were unsuspecting or unsophisticated but there was also obvious collusion

Tax Fraud In The News

