Agency Priority Goal Action Plan

Fraud Prevention

Goal Leader: Charles P. Rettig, Commissioner, Internal Revenue Service (IRS)

Deputy Goal Leader: Sunita Lough, Deputy Commissioner, IRS

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Overview

Goal Statement:

o Reduce the amount of unprotected identity theft tax refunds paid by 2% by December 31, 2019 (based on data reporting lag), and by an additional 1% annually through December 31, 2021. The IRS exceeded the FY 2018-2019 goal by reducing the amount of unprotected identity theft tax refund paid by an estimated 88 percent between processing year 2016 and 2018. The IRS successfully protected between $6.03 billion and $6.08 billion in identity theft refunds in 2018. Between $90 million and $380 million of identity theft tax refunds were unprotected.

o Definitions: **Identity Theft Protected**: Protected revenue includes ID theft related refund fraud claims prevented from payment through IRS defenses. These refunds are safe-guarded from revenue loss or improper payment. **Unprotected Identity Theft**: Refunds paid on probable identity theft refund fraud claims and likely to be unrecoverable.

Overview (continued)

Challenges:

- Personal information, data breaches increase susceptibility to identity theft criminals.
- There has been an increase in more sophisticated identity theft including high consistency tax returns that appear to be filed by the true taxpayer.
- The budget and level of resources that can be dedicated to the Taxpayer Protection Program is a constraint. The sophistication of identity thieves and the number of breaches involving federal tax information (for example, business email compromise and practitioner account takeovers) continues to grow. Therefore, the false negative rates are increasing as thieves acquire more data, including federal tax information, to bypass the detection methods. Customer Service and Taxpayer Assistance Center resources are required to enable taxpayers to authenticate themselves and ensure the refund is directed to the correct account. Information Technology resources are required to support developing and maintaining on-line authentication options, providing taxpayers more choices and deflecting demand from telephone and in-person contacts.

Opportunities:

- Continue collaborating with the Security Summit Work Group, sharing information and identifying opportunities to enhance taxpayer identity authentication techniques.
- Continue developing and retraining detection models using new data elements to prevent identity theft.
- Continue using data analytics and enhanced filters to detect and prevent identity theft.
- Continue awareness campaigns to increase public awareness about the need for computer security and provide people with tips on how to protect their personal information. This includes taxpayer-focused "Taxes. Security. Together." and tax professional-focused "Protect Your Client, Protect Yourself".
- Continue to leverage the Identity Theft Tax Refund Fraud Information Sharing & Analysis Center (IDTTRF-ISAC) to gain insights on emerging patterns and trends of identity theft tax refund fraud in the tax ecosystem.

Leadership & Implementation Team

To achieve this goal:

> IRS will continue collaborating with the Security Summit; develop and re-train detection models; and continue using data analytics and enhanced filters.

Goal Leader: Charles P. Rettig, Commissioner, Internal Revenue Service
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Prevention and Detection

Senior Lead:
- Michael Beebe

Team Leads:
- Denise Davis
- Jack D'Ambrosio

Protection

Senior Lead:
- Dietra Grant

Team Leads:
- Karen Michaels
- Dianne Garibotto
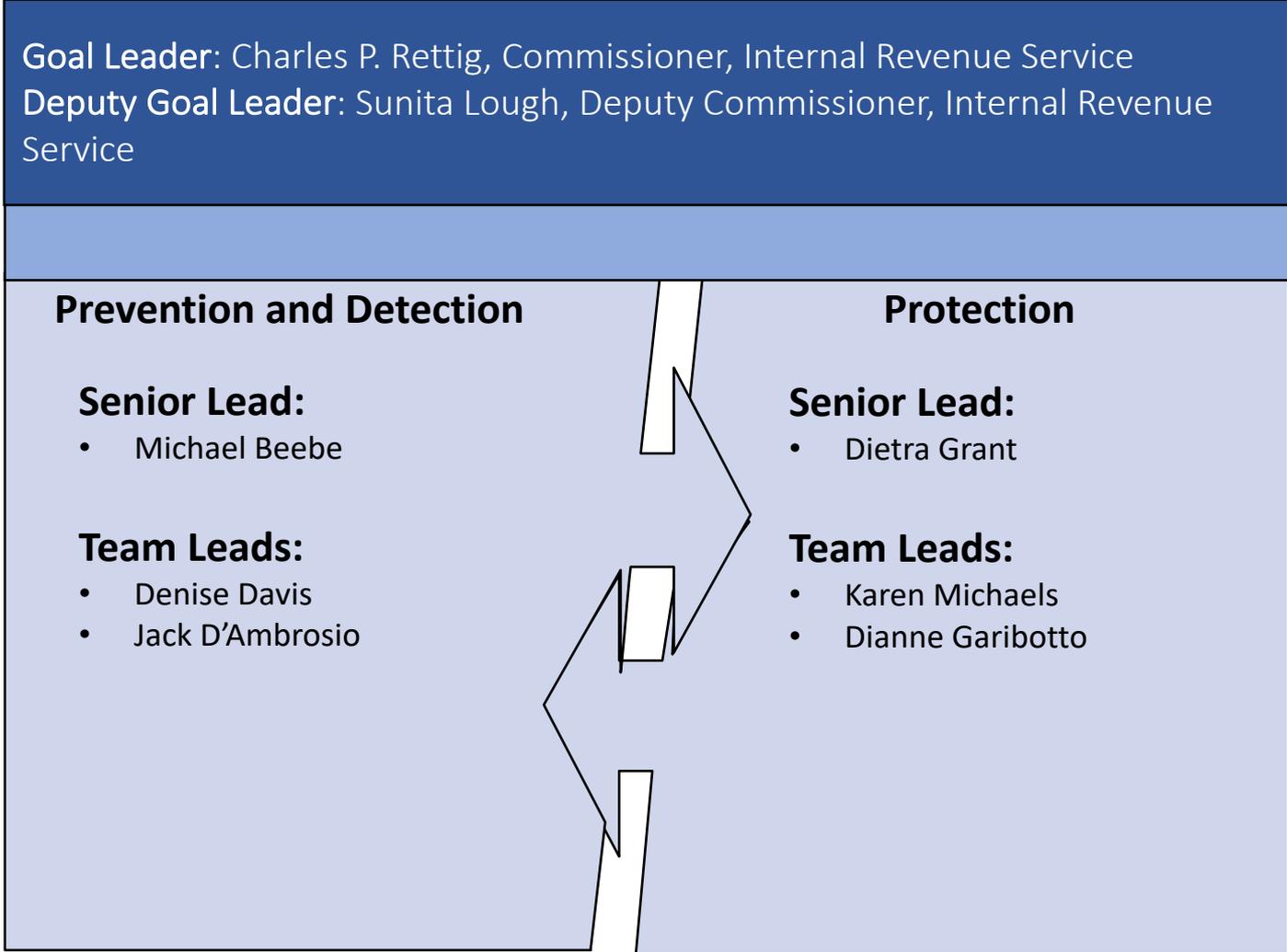
Goal Structure & Strategies

Strategies:

o Leverage Security Summit partnerships and similar efforts to improve available data elements and detection methods to prevent identity theft refund fraud.

- The IRS completed its data analysis for the Security Summit partners including referrals (leads) to the IRS from industry on potential identity theft, and completeness and use of other related data elements shared with the IRS to assist in identity theft detection. A comprehensive and customized analysis is individually shared with industry partners to discuss data quality, completeness, and effectiveness in assisting with identity theft detection.

o Apply data and analytics to refine identity theft detection models, filters and business rule sets designed to detect refund fraud and non-compliance, monitoring their performance to ensure a cycle of continuous improvement.

o Increase efforts to prevent tax related identity theft by continuing to expand the availability of the Identity Protection Personal Identification Number (IP PIN), a 6-digit number assigned to taxpayers to help prevent the misuse of their social security number on fraudulent tax returns.

Summary of Progress – FY 2020 Q2 & Q3

o   For processing year 2016, the IRS estimates between $1.68 billion and $2.31 billion of identity theft tax refunds were unprotected. The IRS successfully protected between $10.56 billion and $10.61 billion in identity theft refunds.

o   For processing year 2017, the IRS estimates between $0.11 billion and $0.60 billion of identity theft tax refunds were unprotected. The IRS successfully protected between $11.78 billion and $11.81 billion in identity theft refunds.

o   The IRS exceeded the Agency's Fraud Prevention Priority Goal by reducing the amount of unprotected identity theft tax refund paid by an estimated 88% between processing year 2016 and processing year 2018. For processing year 2018, the IRS estimates between $0.09 billion and $0.38 billion of identity theft tax refunds were unprotected. The IRS successfully protected between $6.03 billion and $6.08 billion in identity theft refunds.

o   The number of taxpayers reporting they were identity theft victims declined by 80% between calendar years 2015 (677,000) and 2019 (137,000).

Key Milestones

Milestone Summary				
Strategy	**Key Milestone**	**Milestone Due Date**	**Milestone Status**	**Comments**
Data Analytics	Produce the Taxonomy Results for TY 2018	Q1, FY2020	Completed	The IRS estimates between $0.09 billion and $0.38 billion of identity theft tax refunds were unprotected. The IRS successfully protected between $6.03 billion and $6.08 billion in identity theft refunds.
	Preparation for Identity Theft Filters for calendar year 2020	Q1, FY2020	Completed	Annual refresh of the Identity Theft models and filters is complete.
	Assess filter performance on a weekly basis to maximize detection of potential IDT and reduce taxpayer burden.	Q3, FY2020	Completed	IDT filter performance is monitored, reviewed and analyzed weekly. Data and analytics are utilized to refine identity theft detection models, filters and business rule sets designed to detect potential IDT.
Industry Engagement	Security Summit Partnerships and Collaboration with Industry on Lead Reporting	Q2, FY2020	Completed	The Lead Schema fields were successfully refined and updated. The Security Summit continues to encourage partner participation with lead reporting and processes for refund recovery.

Key Milestones

Milestone Summary				
Strategy	**Key Milestone**	**Milestone Due Date**	**Milestone Status**	**Comments**
Taxpayer Protection & Experience	Expansion of IP PIN to an additional 10 states	*Q2, FY 2021	On Target	This milestone due date has been updated to reflect delays due to COVID-19. The IRS expanded the opt-in Identity Protection Personal Identification Number (IP PIN) program to an additional 10 states for the 2020 filing season in January 2020. In the 2nd Qtr. of FY 2021, IRS plans to expand to an additional 10 locations, bringing the total to 30 eligible locations.
	Expansion of IP PIN to an additional 10 states.	*Q2, FY 2021	On Target	This milestone due date has been updated to reflect delays due to COVID-19. In 2nd Qtr. FY 2021, IRS plans to expand to an additional 10 locations bringing the total to 40 eligible locations.
	Expansion of IP PIN to the remaining 12 locations (includes Washington D.C. and Puerto Rico)	*Q2, FY 2021	On Target	In 2nd Qtr. FY 2021, IRS plans to expand to an additional 12 locations. Which will allow taxpayers within the U.S. and Puerto Rico to opt-in and request an IP PIN.
	Addition of two non-digital processes (correspondence and walk-in) for taxpayers to use to obtain an IP PIN .	Q1, FY 2021	On Target	

*Due to the delay in IP PIN expansions in FY 2020 from COVID-19, a go/no go decision is scheduled for August 2020 on adding all remaining locations for filing season 2021. These milestone due dates may be updated in quarter 4 reporting to reflect final decisions.

Key Indicators

Addressing Identity Theft - Overall Attempts Have Declined

- While IRS estimation methods have evolved significantly, we continue to refine the methodology for estimating the amount of ID theft (IDT) detected and undetected. Processing Year 2018 IDT amounts to about $6.3 billion (B).

- Due to differences in detection and calculation methods, the numbers are not fully comparable year to year; however, the estimates indicate an overall decline in identity theft attempts.

IDT Protected v. Unprotected Estimates
Reported from PY 2012-2018: Varied Approaches
Due to differences in detection and calculation methods, year over year figures cannot be compared
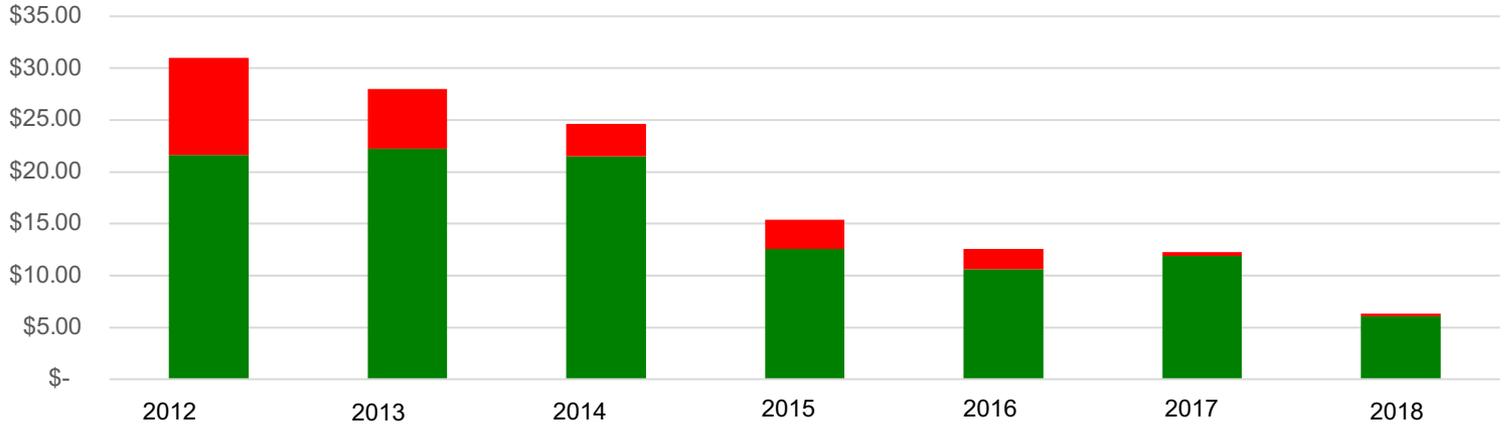
		2012	2013	2014	2015	2016	2017	2018
■ IDT Unprotected	Average (Range)	$ 9.4 B	$ 5.75 B	$ 3.12 B	$2.77 B ($2.24 - $3.34 B)	$2.00 B ($1.68 - $2.31 B)	$0.36 B ($0.11 - $0.60 B)	$0.24 B ($0.09 - $0.38 B)
■ IDT Prevented	Average (Range)	$21.6 B	$22.24 B	$21.5 B	$12.59 B ($12.35 - $12.88 B)	$10.59 B ($10.56 - $10.61 B)	$11.89 B ($11.78 - $11.81 B)	$6.06 B ($6.03 - $6.08 B)
Total	Average (Range)	$31 B	$27.99 B	$24.62 B	$15.36 B ($14.59 - $16.22 B)	$12.58 B ($12.24 - $12.92 B)	$12.16 B ($11.89 - $12.41 B)	$6.29 B ($6.12 - $6.46 B)

Data Accuracy and Reliability

Measure: Identity Theft Taxonomy			
Definition	The IRS performs an annual Taxonomy, a statistical estimation of the amount of revenue protected and unprotected from identity theft (IDT) refund fraud. We continue to refine the methodology for estimating the amount of IDT detected and undetected and provide ranges for the estimates. Although the Taxonomy provides a statistical estimation of IDT fraud detection, the detection methods are evaluated continuously for opportunities to improve detection or reduce taxpayer burden.		
Type / Category	Performance Measure (Statistical Estimation)		
Targets	CY 2019	CY 2020	CY 2021
	2% reduction	1% reduction	1% reduction
Desired Direction	Reduced $ amount of refunds unprotected		
Unit of Measure	$ Amount of refunds protected and unprotected		
Calculation Methodology	Estimate based on analysis and sampling of returns of confirmed and likely ID theft		
Data Source	The source to compute this measure is the IRS Identity Theft Taxonomy, which is an estimate based on analysis and sampling of returns confirmed and likely ID theft. This is a difficult task as ID thieves are attempting to present themselves as legitimate taxpayers. This uncertainty results in range for ID theft unprotected estimates.		
Quality	The measure is limited to tax-related identity theft (not tax fraud).		
Frequency	The taxonomy report is completed annually based on analysis of the prior year, so the 2019 report won't be available until December 2020.		

Additional Information

Contributing Programs

Organizations:

- o Bureau of the Fiscal Service – Ongoing initiatives (e.g., Bank Leads) to detect and prevent fraud across organizations

Program Activities:

- o Security Summit: The IRS has joined with representatives of the software industry, tax preparation firms, payroll and tax financial product processors and state tax administrators to combat identity theft refund fraud to protect the nation's taxpayers.

President's Management Agenda

- o CAP Goal 4- Improving Customer Experience. The IRS is a designated High Impact Service Provider, and included ID Theft as one of its FY20 CX Action Plan focus areas.
- o CAP Goal 9- Getting Payments Right. Reducing the amount of improper tax refund payments to fraudulent actors instead of taxpayers.

Regulations:

- o Taxpayer First Act
- o Protecting Americans from Tax Hikes (PATH) Act
- o A-11 Section 280: Managing Customer Experience and Improving Service Delivery

Stakeholder / Congressional Consultations

Congress expanded the IP PIN program and codified other identity theft protections with the Taxpayer First Act enacted July 1, 2019. Implementing some provisions will require additional resources. The IRS has established an office to coordinate implementation and will continue to engage with Congress.