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Identity Theft Even Affects Taxpayers

We all have heard and read the effect that Identity Theft has on a person's personal finances and credit rating. But, did you know that Identity Theft can even affect you as a Taxpayer with your dealings with the IRS?

I had three clients, this tax season, whose e-filed returns were rejected by the IRS because either the taxpayer's or the taxpayer's spouse's SSN had been used on an earlier return. What this means is simply that someone else filed a tax return using my client's SSN.

Fortunately, by using the e-file method of filing the tax returns, we quickly learned of this problem and addressed it with the IRS. And as usual, the innocent taxpayer has to jump through a lot of hoops to prove that they are who they say that they are.

The IRS security division provided the following guidance for the taxpayer who's SSN had been previously used on another return.

1. You must "paper file" your return with the following information attached:
 - a. A Form 8948 "Preparer Explanation for Not Filing Electronically", prepared by the tax preparer to explain why the return was not filed electronically.
 - b. A photocopy of your picture ID, proving you are who you say that you are.
 - c. Processing of the return will take a minimum of 16 weeks, with a high probability that resolving the issue could take even longer.

In addition, the security division of the IRS advised that the taxpayer take the following actions:

1. The taxpayer should get a credit report from the top three reporting agencies (Equifax, Experian, and TransUnion) You can and should get one “free report” per year to ensure that what’s on your credit report is accurate.
2. The taxpayer should file a complaint with the Federal Trade Commission (FTC).
3. The taxpayer should acquire a Statement of Earnings from the Social Security Administration to make sure only the taxpayer’s earnings are showing for his/her SSN.
4. The taxpayer should immediately acquire an Identity Protection Service such as LifeLock, Trusted ID, etc.

The IRS was quick to point out that even though the taxpayer’s ID was used on a previous tax return does not necessarily mean that Identity Theft has occurred. It could be something as simple as a “transposition error” when the return was prepared.

However, my experience has taught me that this is a very remote possibility because of the IRS Matching Procedure that must be followed when a return is submitted. If the name and SSN on the return does not exactly match the information that the IRS has in its data base for the taxpayer, then the return is automatically rejected. So logic would indicate that there are not two people with the exact same name and somehow a mistake was made in entering the SSN of the person who previously filed the return to exactly match the SSN of the taxpayer in question. That just doesn’t pass the smell test.

The more reasonable assumption is that someone illegally obtained personal information of the taxpayer in question and quickly filed a bogus tax return, filled with false claims for deductions and tax credits, to obtain the largest possible tax refund as possible before anyone could find out about it.

The bottom line is that Identity Theft is a serious problem, with serious consequences for the innocent party. To correct the problem may take months or even years to straighten out.

It is, therefore, incumbent upon every person to be vigilant in protecting and defending their personal information to prevent this problem from happening to them. The advice offered by the IRS in my clients’ cases are excellent ways to insure that your information is not compromised and serves to protect your interests if this problem should ever happen to you. The key is to act decisively to protect your own interests. This is definitely an example of how you have to be your own advocate in the fight against one of the fastest growing crimes in our country.

In the months to follow, I have decided to embark upon a series that addresses some tax planning tips to help you with your 2011 tax year preparation. Just as it is important to be vigilant against thieves that can steal your personal information, it is just as important to keep yourself from being robbed of valuable tax saving tips that can put your hard earned money in the hands of those who have proven that they do not have your best interest at heart, when it comes to tax legislation.

It is my goal this year to help you discover every legitimate tax saving method available to prevent just that. I hope that the tips that we uncover during the remainder of this year will prove invaluable to you as you look forward to the 2011 tax year.

Till Next Time,

Charles W. Register, EA, CPB

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