

Fraud Prevention

Goal Leader: David Kautter, Acting Commissioner, Internal Revenue Service

Deputy Goal Leader: Deputy Commissioner Kirsten Wielobob

Theme: Economic Security and Policy/ General Government /
Management

Overview

Goal Statement

- Reduce the amount of unprotected identity theft tax refunds paid by 2% by December 31, 2019 (based on data reporting lag).
- For processing year 2015, the IRS estimates between \$2.24 billion and \$3.34 billion of identity theft tax refunds were unprotected. The magnitude of this problem requires focused attention, collaboration and innovation to combat it. That same processing year, the IRS successfully protected between \$12.35 billion and \$12.88 billion in identity theft refunds. As a result of the Security Summit efforts and by using data analytics, the IRS is preventing more identity theft and working to continue this downward trend over the next two years.
- 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.

Challenge

- 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.

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.

Goal Structure & Strategies

Strategies:

- Leverage Security Summit partnerships and similar efforts to improve available data elements and detection methods to prevent identity theft refund fraud.
 1. 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. To improve the reporting processes, we plan to share with each partner a comprehensive and customized analysis regarding their unique reporting of leads.
- 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.

Constraints/External Factors:

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 detection 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.

Summary of Progress – FY18 Q2

- For processing year 2014, the IRS estimates \$3.12 billion of identity theft tax refunds were unprotected. The IRS successfully protected approximately \$21.5 billion in identity theft refunds.
- For processing year 2015, the IRS estimates between \$2.24 billion and \$3.34 billion of identity theft tax refunds were unprotected. The IRS successfully protected between \$12.35 billion and \$12.88 billion in identity theft refunds.
- 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.
- As a result of the Security Summit efforts and by using data analytics, the IRS is preventing more identity theft and working to continue this downward trend over the next two years.

Key Milestones

Milestone Summary			
Key Milestone	Milestone Due Date	Milestone Status	Comments
Preparation for Identity Theft Filters for calendar year 2018	Q1, FY2018	Complete	All identity theft system filters are reviewed for annual performance within the current environment, including activities associated with large scale data breaches, information from the Security Summit, or other intelligence like the Dark Web.
Security Summit Partnerships and Collaboration with Industry on Lead Reporting	Q2, FY2018	Complete	The Security Summit was held in October 2017, outlining accomplishments and plans for 2018. 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. To improve the reporting processes, share with each partner a comprehensive and customized analysis regarding their unique reporting of leads by February 28, 2018. Reporting was completed as planned.

Key Milestones

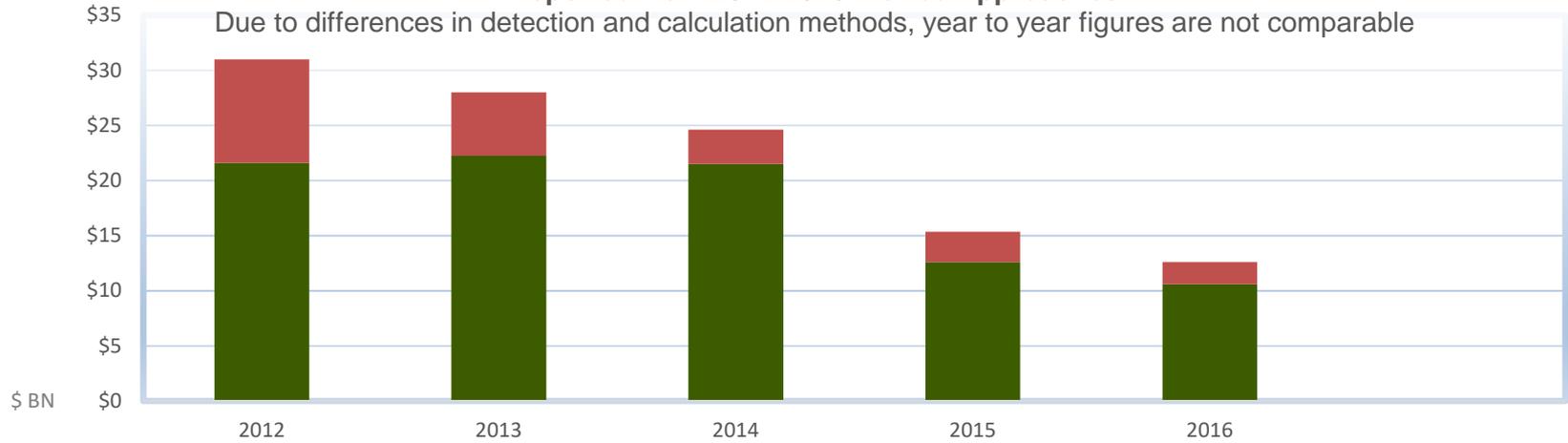
Milestone Summary			
Key Milestone	Milestone Due Date	Milestone Status	Comments
Evaluate filter performance on a weekly basis during the Filing Season to Maximize Detection of potential IDT and reduce taxpayer burden	Q3, FY2018	On Track	Filing Season is scheduled to open on January 29, 2018. All the Identity filters will be tracked for performance and detection in a cross functional forum including, but not limited to, Information Technology, Return Integrity Operations and Research. Systemic case selections from the Return Review Program and/or Dependent Database will be supplemented with Fraud Referral Evaluation analysts for new or emerging patterns and trends. The performance of all detection methods will be evaluated and modified to maximize detection. If appropriate, modifications will be made to reduce taxpayer burden, if detected in error.
Preparation for Identity Theft Filters for calendar year 2019	Q1, FY2019	On Track	All identity theft system filters are reviewed for annual performance within the current environment, including activities associated with data breaches, information from the Security Summit, or other intelligence.
Produce the Taxonomy Results for TY 2017	Q1, FY2019	On Track	The annual taxonomy assessing the results of detected and undetected identity theft is completed. The taxonomy will include the results from Processing Year 2017. This will indicate our progress in protecting revenue associated with identity theft related fraud.

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 2016 total IDT amounted to about \$12.5 billion (BN).
- 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 2012-2016: Varied Approaches**



■ IDT Unprotected ■ IDT Protected	\$ 9.4 BN	\$ 5.75 BN	\$ 3.12 BN	\$2.77 BN average (range: \$2.24 - 3.34 BN)	\$2 BN average (range \$1.68 - \$2.31 BN)
	\$21.6 BN	\$22.24 BN	\$21.5 BN	\$12.59 BN average (range: \$12.35 - \$12.88 BN)	\$10.59 BN average (range \$10.56 - \$10.61 BN)
	Total: \$31 BN	Total: \$27.99 BN	Total: \$24.62 BN	Total: \$15.36 BN average (range: \$14.59 - \$16.22 BN)	Total: \$12.58 BN average (range \$12.24 - \$12.92 BN)

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	FY 2017	FY 2018	FY 2019	FY2020	FY2021
			2% 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 <u>estimate</u> 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 October 2020. To meet the APG timeframe, the results will be based on processing year 2018 results.				