Identity Theft Resource Center Predicts 2014 Identity Theft Climate for Tax Season and Beyond

For the last fourteen years, identity theft has been the number one reported complaint to the Federal Trade Commission ("FTC") according to their annual report titled the *Consumer Sentinel Network Data Book*. Javelin Strategy & Research has produced yearly studies, titled *Identity Fraud Report,* showing that the number of identity fraud victims increased from 10.2 million Americans in 2010 to 13.1 million in 2013.

Identity theft as a whole is growing, and we find that tax-related identity theft is one of the main drivers in the growth of the overall rate of identity theft. Tax-related identity theft has increased rapidly, and this trend can be shown by looking at statistics from the last few years. In 2010, the FTC reported 19.2 percent of all identity theft complaints were categorized as government documents or benefits fraud-related ("government-related identity theft"). The FTC's recently released *Consumer Sentinel Network Data Book* reports this number for 2013 at 33.9 percent of the overall number of identity theft complaints, a significant increase of 14.7 percentage points over 2010. Tax-or wage-related fraud ("tax-related identity theft") represented 30 percent of all 2013 FTC identity theft complaints, nearly double the 15.6 percent reported in 2010. At nearly 34 percent of the overall complaints for 2013, government-related identity theft was more than two times the reported percentage of credit card fraud complaints (16.9 percent). **The ITRC predicts that tax-related identity theft will continue to be the largest and most significant category of FTC complaints in 2014.**

The ITRC compiles statistics on identity theft victims calling into our victim call center and found that **the percentage of IRS-related identity theft cases, out of all cases, more than doubled over the last five years** (6.2 percent in 2009 and 15.0 percent in 2013). Based on this five year trend, the ITRC predicts that IRS-related identity theft cases handled by our victim call center will continue to increase as more victims understand, identify, and seek help for IRS and tax-related identity theft.

Why is Tax Identity Theft Such a Problem?

Tax identity theft has been relatively easy to commit and is a very profitable crime. An identity thief can steal or purchase your Social Security Number and simply file a fraudulent return requesting refunds in your name. It's that simple. The IRS is beginning to catch up and implement protocols to reduce the rate of tax-related identity theft; however, it is still too attractive for criminals to ignore.

Not only is tax-related identity theft an alluring crime for identity thieves, the sensitive personal information they need to commit the crime is only too readily available during tax season each year. The Statistics of Income Bulletin, a publication issued quarterly by the Statistics of Income Division of the Internal Revenue Service, featured an article titled *Projections of Federal Tax Return Filings: Calendar Years 2011-2018* in its winter 2012 issue. In the article, it estimated that over 236 million returns were filed with the IRS in 2011 and projected over 239 million for 2012 with a one percent increase per year until 2018, where it projected more than 253 million returns to be filed.

The Identity Theft Resource Center recognizes that during tax season an abundance of paper documents containing individuals' and businesses' sensitive information are passed back and forth, left in unlocked mailboxes and even thrown away un-shredded. Paper documents such as W2 forms, invoices from tax preparers and other tax-related documents, which are so ubiquitous at tax time, contain all of the necessary information to commit tax identity theft. If an identity thief discovers intact, un-shredded tax documents it's like hitting the lottery.

While tax identity theft statistics continue to capture robust data, they do not capture how many thefts come as a result of electronic versus paper compromises. By the time tax identity theft is discovered, it generally cannot be traced back to the personal information's exact source of origin, which makes prevention tactics even more important (see below).

Tax Identity Theft by State

The FTC's Consumer Sentinel Network (CSN) received more than two million consumer complaints during 2013. The CSN Data Book, which is released annually, has identified identity theft as the number one complaint for the past 14 years.

This CSN Data Book includes the number of government-related identity theft complaints reported by each state. Since government-related identity theft includes complaints other than just tax-related identity theft, we must take into consideration that state-provided statistics only include the overall category government-related identity theft and they do not break it down by sub-category. For 2010, tax-related identity theft complaints made up more than 81 percent of all government-related identity theft complaints across the nation. For 2011, tax-related identity theft made up more than 89 percent of all government-related identity theft complaints. In 2012, this majority widened, as the tax-related identity theft complaints comprised more than 93 percent of the FTC government-related identity theft category. The most recent FTC report, while reflecting a slight decrease down to 88% percent of total government-related identity theft, still provides us with enough state by state information to indicate this is still a nationwide concern. Tax-related identity theft is the predominant driver for this government-related identity theft category.

Top States for Government Identity Theft in 2013

According to the CSN Data Book, the states on the "Top Five + One" list all reported a majority of their identity theft complaints were categorized as government-related identity theft. These states are as follows: **Florida** (55 percent), **Georgia** (51 percent), **Louisiana** (46 percent) **Mississippi** (45 percent), **Alabama** (44 percent) and **West Virginia** (44 percent). Not only was government-related identity theft high in these states, it topped the list of categories of complaints in 48 states and the District of Columbia (in Hawaii and Washington only credit card fraud ranked higher).

When comparing each state's government-related identity theft percentages to the next highest category, we see just how significant a problem government-related identity theft is nationwide. Florida's government-related identity theft percentage (55 percent) was more than four times that of its next highest category of complaints, credit card fraud (12 percent of all complaints). Georgia's government-related identity theft (51 percent) was also over four times greater than its next highest complaint category, credit card fraud (11 percent). The same went for Louisiana, with government-related identity theft (46 percent) being slightly more than four times higher than its next highest category, both phone or utilities fraud (11 percent) and credit card fraud (11 percent). Mississippi's government-related identity theft (45 percent) was more than three times higher than its next highest category, phone or utilities fraud (13 percent). Alabama's reported 44 percent for government-related identity theft was also more than three times higher than its next highest category, 13 percent for phone or utilities fraud. Lastly, West Virginia's government-related identity theft (44 percent) was nearly three times higher than the 15 percent reported for phone and utilities fraud, the second highest category.

While it's not exactly clear why certain states have higher incidences of tax-related identity theft, it is the opinion of the ITRC that varying demographics play a role. States with larger populations of elderly individuals, military members and increased levels of organized financial crime will typically report higher rates of tax-related identity theft. Elderly individuals are not as well versed in protecting their personal data and are generally more trusting, resulting in them falling for social engineering scams and telephone solicitations asking them for their personal information. Military members are often targeted as they are often overseas and unable to closely monitor any mail or correspondence with sensitive information they may receive. In addition, military member's personal identifying information is easily accessible making these individuals and their family members especially vulnerable. Lastly, more and more organized crime rings are beginning to take notice of this lucrative crime and are often found operating in many of the states with the highest identity theft rates.

Four Year Trend in State Identified Government Identity Theft 2010-2013

It is important to realize the FTC's CSN Data Book is issued using data compiled by the Consumer Sentinel Network Database, a clearing house of information which is collected from a variety of sources. It should be noted that the IRS does not file consumer complaints in the CSN.

Florida – For the third year in a row, Florida again tops the list of states having the highest percentage of government-related identity theft complaints. Despite a dramatic decrease of 17 percentage points from an all-time high in 2012, more than half of the state's reported complaints in 2013 fell into this category (55 percent). Florida had the second largest overall increase in the percentage of government-related identity complaints over a four year period, increasing 31 percentage points from the 24 percent reported in 2010.

Georgia – Georgia had the second highest percentage of government related identity theft complaints for the past three years. With just over half of the complaints (51 percent) falling into this category in 2013, this represents a 20 point increase over the 31 percent reported in 2010. Georgia has ranked first or second over the past four years.

Louisiana – Louisiana had a less dramatic increase in percentage of government-related identity theft complaints over this period, reporting a 19 percentage point increase from the 27 percent reported in 2010, to 46 percent in 2013. Louisiana has ranked in third to fifth place over the last four years.

Mississippi – Government-related identity theft increased 14 percentage points in Mississippi over the last four years, from 31 percent in 2010 to 45 percent in 2013. Mississippi has been in the top five all four years, ranking from second to fourth.

Alabama – Alabama, which has been in the top five three of the last four years, saw its government-related identity theft increase by 13 points during this four year period. In 2010, Alabama reported 31 percent of its identity theft complaints fell into this category. In 2013, it reported 44 percent of their identity theft complaints were government-related.

West Virginia - West Virginia had the most explosive growth in government-related identity theft, with its percentage in this category going from 9 percent in 2010 to 44 percent in 2013. This represents a 35 percentage point increase over the last four years and the largest increase for this period of any state in the nation. It is important to note that 47 states reported decreases from 2012 levels of government-related identity theft complaints compiled by the FTC, but West Virginia experienced a 6 percent increase in complaints. West Virginia is one of only three states, the others being Maine with a 1% increase and Arkansas which remained the same, that didn't report decreases in this category.

Ongoing Efforts

While tax-related identity theft continues to be attractive to identity thieves, and will likely continue to be a significant issue, the IRS has not been sitting idle by the sidelines. The IRS is continually modifying its screening systems and filters, initiating (12) identity theft filters in 2012 and increasing that number to more than 80 in 2013. The Treasury Inspector General for Tax Administration ("TIGTA") reported an increase in the number of individuals affected by tax-related identity theft in 2013. On September 26, 2013, the Treasury Inspector General for Tax Administration released a report title, *Case Processing Delays and Tax Account Errors Increased Hardship for Victims of Identity Theft,* showing that the number of taxpayers affected by tax-related identity theft halfway through calendar year 2013, 1.6 million, had already surpassed the number of individuals affected during the entire calendar year of 2012, 1.2 million.

The IRS Law Enforcement Assistance Program for identity theft, a program that helps law enforcement obtain the tax return data they need to investigate and prosecute tax-related identity theft crimes, expanded to all 50 states in 2013. Additionally, criminal investigations have increased, the amount of fraudulent refunds issued has been reduced and the number of IRS employees dedicated to identity theft has doubled. The IRS is fighting back, but until the growth of tax-related identity theft is at least stopped or reversed, it will remain an epidemic costing the US billions of dollars every year.

Additionally, the IRS has been active in its education and awareness campaign efforts to inform consumers and taxpayers about government and tax-related identity theft issues. This may have played a part in the nationwide decrease in tax-related identity theft complaints reported to the FTC for 2013 as consumers became increasingly aware of the need to contact the IRS directly regarding this issue.

Looking Forward

It is difficult to accurately predict the future rates of government-related and tax-related identity theft; however certain states have consistently reported higher percentages of tax-related identity theft year after year. The states found most frequently in the Top 5 for tax-related identity theft over the last four years are Florida, Georgia, Mississippi, Louisiana and Alabama. Each of these states has been in the Top 5 tax-related identity theft states at least three times over the last four years. Thus, it is reasonable to expect that these states will continue to see elevated levels of tax-related identity theft compared to the rest of the nation.

5 Tax Identity Theft Prevention Tips for 2014

1. File your taxes as soon as possible. The longer you wait, the more time an identity thief has to file a fraudulent return in your name.
2. Shred all no longer needed tax-related documents that contain sensitive information with a cross-cut shredder. Documents include receipts, W2 forms and tax preparer invoices.
3. Protect your computers and mobile devices with firewalls, anti-virus software and complex passwords.
4. Don’t carry your Social Security card or any other documents with your Social Security Number with you.
5. Order a copy of your free annual credit report from each of the three credit reporting agencies. Stagger these requests throughout the year.