

IRS tax return scam hits unsuspecting taxpayers

By Crissa Shoemaker DeBree Staff writer | Posted: Thursday, April 16, 2015 3:30 am

Katie Alullo had an unpleasant surprise when she went to file her taxes: Someone had claimed a refund in her name.

That's when the Bristol Township resident found out she was the victim of identity theft.

Tax Day has come and gone, but for taxpayers like Alullo, the nightmare may just be beginning. That's because some refunds already may have been claimed by scam artists.



Nearly 2.5 million taxpayers were affected in some way by identity theft for the 2013 tax year, up from 270,000 in 2010, according to an audit released Wednesday by the U.S. Treasury Inspector General for Tax Administration. The tax refund scam has landed on the IRS' "Dirty Dozen" list of top fraud schemes for the past several years.

Earlier this month, the IRS said it started 295 new identity theft investigations since January, pushing the number of active cases to more than 1,800.

"It's been exacerbated because so many people file electronically," said Phil Karter, a shareholder with the business and tax law firm of Chamberlain Hrdlicka in Conshohocken. "If your Social Security number has been used, or even if you have a dependent and the dependent is claimed by somebody else, your return will not be accepted. That's an immediate alert that somebody has already filed a return with your Social Security number."

Most taxpayers don't discover the fraud until they've filed their taxes. If they do so electronically, the return may be rejected immediately. If they file a paper return, they may not realize they've been scammed until they receive a letter after the IRS tries to process the return.

"When the innocent (taxpayer) strolls into the nearest H&R Block or their tax professional and tries to file the affected tax return, the system is rejecting it," said tax attorney Dermot F. Kennedy. "The preparer has to go through an inordinate processes to find if they're being rejected for deficiencies in the return itself, or if it's a scam. It takes a while to find this out."

Kennedy, who has offices in Northampton and Moorestown, New Jersey, said he's dealing with two clients who discovered their identities had been stolen and their refunds fraudulently claimed. Now, he said, they face the lengthy process of getting that money back.

According to the Treasury Inspector General's audit, the IRS took an average of 278 days to close tax fraud cases last year. While that's an improvement on prior years, it's not fast enough, the agency said.

"Everything will have to go on paper," said Kathleen Atkinson, who owns the Independence Tax Service in Doylestown. "And nothing the IRS does is ever in a timely manner. Numbers have come down (in resolution time) but it's not like we can resolve it in a week. They don't have the manpower to do that."

Atkinson said she's seen more victims fall prey to an IRS phone scam that's been around for longer than the tax refund scam. Callers posing as IRS agents threaten arrest if the victim doesn't pay what they say is owed — often by providing credit card information over the phone.

The damage from that scam can be substantial, she said. But it's more limited in scope than the tax refund scam.

"You pick up the newspaper any day and see how a company has had a data breach," she said. "That's all they need, the Social Security numbers. It's all downhill from there."

Filing taxes early can help combat the fraud, according to tax specialists.

Plus, Karter said, taxpayers who believe they're victims of identity theft can notify the IRS by filing an identity theft affidavit — officially known as a Form 14039 — so the agency can flag their returns. Taxpayers can also request a transcript of their tax activity to determine if fraudulent returns have been filed under their name.

Alullo said she filed a report about her taxes.

"I haven't heard back if it was accepted or not," she said.