

Help avoid tax-related identity theft

Take action to help reduce your chances of becoming a victim

Identity theft, unfortunately, is now becoming commonplace in today's high-tech environment. Frequently we hear of credit card breaches, personal information being stolen from what we thought were secure sources, and hackers accessing private account information. These troubling events have now extended into the tax arena as well.

Potential frauds and scams

Tax-related identify theft involves someone using a stolen Social Security number to file a tax return and claim a fraudulent refund. This is a small but growing occurrence, and if it happens to you, it can have a major impact on your financial life and delay payment of a tax refund on which you may have been depending.

How do you know if someone has obtained and is using your Social Security number in a tax-related identify theft? Here are some warning signs:

- The IRS or your tax professional notifies you that more than one tax return has been filed for you based on your Social Security number.
- The IRS or your tax professional indicates that you owe additional tax, have a refund offset, or have had collection actions taken against you for a year you did not file a tax return.
- The IRS notifies you that you received more wages than you have indicated on your return and the wages are from an unknown employer. (Someone may have used your Social Security number to obtain a job, and those wages are now reported on your number.)
- Your state or federal benefits are reduced or cancelled because the paying agency received information reporting an income change.

In the past, some unscrupulous tax preparers have directed client tax refunds into the tax preparer's account. To help avoid this situation, the IRS now limits the number of direct deposit refunds to any one financial account or prepaid debit card to three. For any subsequent valid refunds, the IRS will prepare a paper check and postal mail it to the taxpayer. This provision may affect larger families where parents and, perhaps, minor children would like to direct tax refunds into the same financial account, so plan accordingly.

How to help protect your identity

A good way to help avoid tax-related identity theft is to be proactive in protecting yourself. Consider these tips:

- Don't carry your Social Security card or any documents that include your Social Security number or individual taxpayer identification number.
- Don't give a business your Social Security number or taxpayer identification number simply because they ask. Be sure that information is required before providing.
- Check your credit report at least once per year; do it more frequently if you suspect your financial information is or could be used fraudulently.
- Secure your personal financial information at all times and places (home, office, electronic devices, etc.).
- Do not give your personal information to anyone on the phone, through postal mail, or on the internet unless you have initiated the contact and are sure you are dealing with the appropriate person, business, or entity.

It's also important to note that the IRS communicates to taxpayers in writing through formal notices mailed to the address associated with a particular Social Security number. The IRS does not call or email taxpayers. If you receive a phone call, e-mail, or other electronic message from "the IRS" or someone claiming to be from the IRS, it is fraudulent. This is another means to gain unauthorized information or access to it. Do not respond to the caller, e-mail, or electronic message, but be sure to report the attempt to the IRS (see "What to do about tax-related identity theft" below). If the message is electronic, forward it to phishing@irs.gov.

What to do about tax-related identity theft

If your personal information has been used fraudulently, or you suspect so, take these steps as quickly as possible:

- File a report with your local police department.
- File a complaint with the Federal Trade Commission at identitytheft.gov. Or call the FTC Identity Theft hotline at 1-877-438-4338, TTY: 1-866-653-4261.
- Contact one or all three of the major credit bureaus to place a fraud alert on your account:
 - Equifax: equifax.com, 1-800-525-6285
 - Experian: experian.com, 1-888-397-3742
 - TransUnion: transunion.com, 1-800-680-7289
- Close or freeze any accounts you know have been tampered with, accessed, or opened fraudulently.

What is an identity protection PIN?

In its efforts to help victims of tax-related identity theft, the IRS uses a system called the Identity Protection PIN (IP PIN). An IP PIN is a unique six-digit number the IRS assigns to identity theft victims. The IP PIN shows that a taxpayer is the rightful filer of the return and allows an identity theft victim to file returns electronically more securely.

The IRS may proactively notify you that their security systems indicate you may be a victim of identity theft. This notification may offer you the opportunity to opt into the IP PIN program.

Another pilot program the IRS sponsors lets taxpayers in Florida, Georgia, or the District of Columbia opt into the IP PIN program. Finally, the IRS offers IP PIN participants who lose their IP PIN to create an account online and receive a changed IP PIN.

Further, if your Social Security number has been compromised and/or you suspect you may be a victim of tax-related identity theft, take these additional steps:

- Respond immediately to any IRS notice you receive; typically there will be a number provided on the notice, which you should call as soon as possible.
- Complete IRS Form 14039, Identity Theft Affidavit. Use the fillable form available on irs.gov and mail or fax it to either the address or number provided in the instructions.
- Pay any taxes you owe and file your tax return. You may need to file your income tax return by paper rather than electronically.
- If you previously contacted the IRS but still have no resolution, contact the specialized assistance unit at 1-800-908-4490.

Be sure to record the dates on which you made phone calls or sent letters. Keep copies of all correspondence (written or electronic) in a file for your records and protection.

How your professional team can help

Talk with your CPA or tax professional about these issues, and together decide the right policies and procedures for your particular situation when filing taxes and requesting a refund.

Your financial advisor can review your tax return to help uncover investment-related strategies you may want to consider to help manage your tax liability. Remember, planning appropriate tax strategies and measures is a year-round effort, not just a tax-season exercise.

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