Advisory Panel Urges IRS to Combat Identity Theft in its Tax Fraud Efforts

by Frank L. Brunetti on January 14, 2013

Combat Identity Theft

The Internal Revenue Service has funneled a significant amount of resources toward combating tax law violations. However, some argue that the federal agency is not paying equal attention to another important crime that is connected to tax fraud.

The IRS Advisory Council's 2012 annual report offers up several suggestions, including a recommendation to focus more attention on combating identity theft, which often leads to tax fraud. The group noted that by focusing too heavily on seeking out tax evaders and tightening its compliance standards, it was missing out on the opportunity to detect and prosecute identity thieves that have committed other costly tax-fraud crimes.

"The IRS must continue to diligently look for ways to combat identity theft which leads to tax fraud," said the panel. "The IRSAC commends the IRS on its two-pronged effort, but is concerned that both taxpayers and the tax system will suffer if appropriate measures are not taken quickly and effectively to control this fraud."

Identity theft is a crime that affects roughly 11 million Americans of all income brackets each year. The report argued that failing to address the issue in the present would lead to higher costs in the future as the crime becomes more prevalent. Over time, this may divert resources away from other pressing tax issues, and strain the shrinking IRS budget even more.

The advisory panel noted that by working more closely with banks and financial institutions, they could more closely manage the risk of identity theft and help stem the crime. The IRS has already partnered with several financial institutions and formed agreements with a number of countries to ensure compliance with U.S. tax law. The IRS said stronger relationships with banking institutions may help it detect federal tax crimes and help close the growing tax gap.