Department of Revenue Day 2: Audit selection and tax refund fraud

Joint Committee on Ways and Means
Subcommittee on General Government

May 2, 2017

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Audit selection

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Background

- Pre-audit case selection.

- Focus on greatest areas of risk.

- Appear larger than we are.

Complexity of audits		
Single issue	**Complex issue**	**Entity audits**
Credits	Employee business expenses	Schedule C business
Subtractions	Casualty loss	S corporation
Alimony	Net operating loss	Partnership
	Business	Domestic C corporation
	Schedule C (Small business)	Multistate C corporation
	Schedule E (Rentals)	International C corporation
	Schedule F (Farm)	

| Time to complete		
Up to two months	Up to three months	From three months to a year or more

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Audit selection philosophy

- Voluntary compliance.

- Correcting adverse behavior.

- Fair and balanced.

- Centralized selection.

- Differences between programs.

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What's new

- All in one system.

- Data warehouse.

- Discovery system.

- Scoring.

- Inventory management.

- Paperless review.

- Metrics and reporting.

Type of audit*

Legend:
- Legacy (July 1, 2013–Dec. 1, 2015)
- GenTax (Dec. 1, 2015–Sept. 30, 2016)
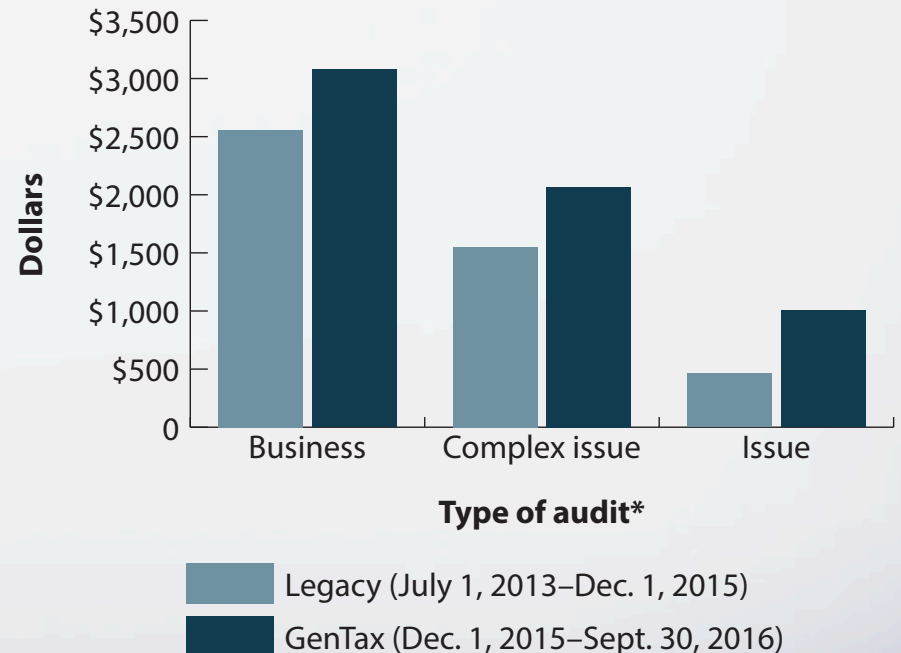
*"Issue" audits are those audits where there is generally only one issue with the return. "Complex issue" audits involve multiple issues on a return.

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Tax refund fraud

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Refund fraud

Tax fraud has grown in sophistication over the past 10 years.

- Then: Altered W-2s, enhanced deductions, fake taxpayers and W-2 information.

- Now: Stolen identities and W-2 information.

Criminals see refund fraud as cheap, easy, low-risk.

- Federal government, 41 states, and D.C. have a personal income tax.

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The refund dilemma

Push for electronic filing
- Fast and efficient.

Conflicting goals
- Verifying accuracy.
- Issuing refunds promptly.

Delays
- Trade-off for fraud detection.
- More manual review.
- Slower for refunds even if they don't require manual review.
  - Took 22 days in 2016.
  - Took 8 days in 2015.
  - Took 5 days in 2014.
- Adjusting KPM #2 – Days to Refund.

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Where does the data come from?

Data breaches

- IRS "Get Transcript"
- Office of Personnel Management
- Oregon Fish and Wildlife
- Yahoo
- Anthem BlueCross BlueShield
- Targeting tax preparers
  - Returns filed from their software with changed bank information.

Phishing

- Email requesting employee information (W-2s).
- 543 employers received through "suspicious filer" system.
- Not limited to businesses: Redmond School District.

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150-800-550 W&M Audit Selection and Refund Fraud (5-17)

Refund fraud: 2010-2016

Filing season	Returns stopped	Dollars stopped	Returns paid	Dollars paid
2016	7,773	$5,162,031	33	$55,519
2015	3,984	$6,725,812	198	$147,168
2014	4,938	$7,702,685	159	$145,279
2013	1,798	$5,554597	56	$21,915
2012	2,037	$4,659,601	15	$171,642
2011	983	$881,702	51	$35,740
2010	424	$425,291	76	$46,630

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Fraud detection 2017

Fraud policy option package in 2013.

- Fraud module:
  - Analytics.
  - Dynamically score fraud returns based on risk factors.
  - Identity confirmation quiz.

More staff dedicated to review.

Using more matching capabilities.

- Held refunds until mid-February.
  - Employer W-2 and 1099 deadline of January 31.
  - Match data between tax returns and W-2 information.

Partnerships with IRS, states, industry.

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Questions?

If you have additional questions after today please contact:

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