

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 1

Good morning and welcome to today's webinar. I am Larry Womac and I will be your presenter. With me are our subject matter experts Joseph Adversalo and Nepoh Lappia.

## Slide 2

Today's webinar is only 30 minutes in length and does not qualify for Continuing Education Credits.

## Slide 3

Before we get started, I want to take a moment to explain how the control panel on your screen works. In the upper right corner of your screen, you should see a tab. Just click on the arrow on the tab to expand out your control panel.

This slide shows an image of a control panel that is similar to the one on your screen. On it are the various parts of the control panel and their function. Please use it as a reference to guide your use of the control panel during the presentation.

Notice that your control panel has a dial-in number and access code on it. If at any point during the presentation you lose our signal, or if you can't hear the audio, please call the number listed on your screen to hear this webinar over the phone.

At the bottom of your control panel there's a place for you to type in questions. Please feel free to type in your questions at any time during the webinar. I'll do my best to answer those questions at the end of the presentation or respond back to you directly as soon as possible after the webinar.

## Slide 4

Our next webinar, POA 101 will be on May 13 at 10:00a.m. This webinar is 30 minutes and will cover information on how to correctly complete a Power of Attorney.

## Slide 5

Today's objectives are to go over:

- Tax fraud & identity theft in general
- How you can tell if your client is a victim of identity theft
- How to detect tax fraud & identity theft
- Fraudulent W-2s
- How to report & resolve identity theft issues and
- Protecting your client's tax information

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 6

Onto today's webinar. Let's begin with identity theft in general.

## Slide 7

For millions of Americans, it is a frightening, frustrating, and sometimes financially expensive experience.

With more information online, criminals have greater opportunities to steal personal information.

Identity Theft occurs when a criminal obtains and uses someone else's personal information, such as credit card numbers, bank account numbers, insurance information and social security numbers to purchase goods or services fraudulently.

Identity theft is a state and federal crime.

## Slide 8

We see two specific types of ID theft that affect California taxpayers and their FTB tax accounts:

The first-when someone steals the identity to get a refund. We call this 'refund fraud'. In this situation, the taxpayer normally finds out they are a victim when they try to e-file their return and it is rejected because we have already received a return related to his or her social security number. As a result, the taxpayer must file a paper return, provide additional documentation, which delays their refund, but ultimately the taxpayer receives it.

The second-when the thief uses the taxpayer's ID to gain employment under false pretenses. We call this 'employment-related' ID theft. In this situation, the employer reports the income to FTB or IRS. When FTB performs income matching, we send a notice to the victim regarding the unreported income. Our received FTB notice is the first indication to the taxpayer that they are a victim of ID theft.

## Slide 9

So, how big is the problem of ID theft? The next few slides will give us a glimpse of the growth in overall ID Theft at the national level and at FTB.

To get a complete picture of the trends in ID theft at the national level, we looked to the nation's consumer protection agency – the Federal Trade Commission – or commonly referred to as the FTC. The FTC maintains a national database of the complaints they receive, including complaints concerning fraud and identity theft.

## Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

As you can see on this graph, at the national level we've seen a sharp increase in the number of ID Theft complaints reported to the FTC where the victim's information was misused for Tax or Wage related activities. The number of complaints in this area grew by 8 times from below 20,000 in 2005 and nearing 160,000 in 2012. This is an exceptional amount of growth in only 7 years.

California is one of the top three states, with 13% of the registered complaints coming from of our residents.

### Slide 10

As the number of complaints have risen with the FTC, we have seen the same trend at the Internal Revenue Service (IRS).

From 2009 through 2011, the IRS has seen a growth in confirmed incidents of ID theft from just over 400,000 to nearly 1.2 million.

The issue continues to rise. The volume as of the end of June for the 2013 calendar year is at 1.9 million per recent testimony given by a representative for the Treasury Inspector General for Tax Administration.

### Slide 11

Here at FTB, like that of the IRS, we have experienced a growth in ID theft incidents. As you can see from this graph, our overall number of incidents in fiscal year 12/13 is 3 times the volume it was in 09/10 – growing from 6,000 in the year to over 18,000 contacts. The largest portion of this growth was due to Refund Fraud.

### Slide 12

The Fraud and Discovery Section ( or FADS) has an effective prevention and detection program. In 2012, FADS detected \$78.5 million in attempted fraud, including \$14.4 million in identity theft. Even with these results, identity thieves continue to test the system looking for weaknesses.

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 13

Fraud and Discovery Section uses multiple methods to limit fraudulent activities, such as:

- Verify all W-2 data by matching Employment Development Department data with tax returns.
- Use enhanced modeling techniques for early detection.
- Compare historical tax return data for discrepancies.
- Contact businesses for employment verification.
- Manually review all questionable tax returns.
- Research informant referrals and
- Monitor questionable tax preparers.

## Slide 14

Is your client an identity theft victim? It's possible, if your client receives one or more of the following:

- E-filed return rejected and requires your client to submit a paper return.
- Taxpayer receives a billing notice for income they did not earn.
- Refund received prior to filing the return.
- Request for a Return-
  - IRS return filed from a California address
  - Employer reported wages where your client did not work

## Slide 15

Although Franchise Tax Board has fraud detection programs in place, we suggest that you use some of the following techniques to lessen the challenges associated with personal income tax fraud:

- Create the "perception of detection." Send a message to your clients that you actively look for fraud. Increase the perception that fraud will be detected, and it will substantially lessen the likelihood of its occurrence.
- Provide fraud awareness training to your staff; keep them informed about fraudulent activities.
- **Know your client. Some of the ways you can do that are: verify their identification.....**
- Have you done business with the individual before?
- Does your client live or work near your office or have they traveled a significant distance or out of the country?

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 16

Question dependent information.

- Is your client familiar with their children's names, ages, or birthdates?
- Does your client know the name, address, and phone number of their dependents care provider?

## Slide 17

Review business deductions.

- If your client is claiming business income, do they have records to substantiate associated deductions?
- Does it appear that business deductions are overstated and are they typical for the specific business?

## Slide 18

Additional precautions before you mail or transmit the return:

- Use MyFTB Account to:
  - Obtain California wage and withholding information.
  - Verify estimate payments before filing tax returns.
  - Verify FTB-issued 1099-Gs and 1099 INTs.
  - View recent payments applied to accounts.
- Contact the employer.

## Slide 19

Every year, tax professionals are faced with what to do when presented with documents they think may not be legitimate, of particular concern, are fraudulent W-2s. We encourage you to use 'MyFTB Account' to verify W-2 information such as California wage and withholding information. If you cannot find your client's information on 'MyFTB Account,' then ask the client for a copy of their last paycheck stub or call the employer to verify the wage and withholding amounts.

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 20

During your client interview, here are some examples of what we call "Fraud Flags":

- New (unknown to you) client that appears nervous.
- Client appears to be following a script.
- Client accompanied by a friend that appears to be coaching your client.
- Excessive distance from taxpayer to preparer's address.

## Slide 21

- Unknown (unable to verify) employer address, phone number.
- Identification seems to be altered.
- Client unfamiliar with type of work performed.
- Length of employment is under 12 months.

## Slide 22

When you are looking at your client's W-2 look for these fraud indicators:

- Unreasonable withholding compared to wages.
- Excessive wages (executive vs. line worker) for type of work.
- W-2 is not similar to the type of W-2 issued by that particular employer.
  - Example: Hand typed or written for a larger corporation that uses a specific type of computer generated W-2.

## Slide 23

- Missing identification number (SEIN/FEIN). All W-2s should have identification numbers.
- Dollar amounts (decimals) out of alignment, as well as the entity information.
- Information misspelled

## Slide 24

- Appearance of altered W-2 – white out or added figures. Examples:
  - W-2 for withholding has an amount, but the "print type" does not match for all the numbers.

## Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

- The changes are an addition of a digit to increase withholding amount or a white out digit to decrease wage amounts.

### Slide 25

If you have a concern that your client's W-2 may be fraudulent, you can fax copies of suspicious W-2s to 916.843.6034. Again that fax number is 916.843.6034.

Include your contact information with your fax number. Our goal is to confirm the validity of the W-2 within 24-48 hours. Referring a questionable W-2 to us, regardless of whether the return is transmitted, enables us to prevent the fraudulent refund from being issued.

### Slide 26

To report and resolve id theft issues, follow the instructions on FTB 3552, Identity Theft Affidavit. Also be prepared to send copies of the following documents:

- Passport
- Driver license or Department of Motor Vehicles identification card
- Social security card
- Police report
- An IRS letter of determination

In addition, if your client claims they are a victim of id theft and the only income they receive is social security, we may request the Social Security Administration letter substantiating their claim.

### Slide 27

Your client can use FTB 3552 to report they are:

- An identity theft victim and it is impacting their taxes
- An identity theft victim and there may be a future impact to their tax account
- A potential identity theft victim and they believe that this may have an impact on their tax account

### Slide 28

The 3552 also provides a checklist of the documents they can use to verify their identity to us.

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 29

If your client has already filed an IRS Form 14039, Identity Theft Affidavit, they can submit the IRS Identity Theft Affidavit in place of ours.

## Slide 30

On the FTB website, in the search box, type "Identity Theft," then press enter and select the first link to Identity Theft, which will bring you to this screen.

## Slide 31

For assistance you can contact FTB's ID Theft Resolution Coordinator via mail, telephone, or fax.

We have also included links to other government and credit reporting agencies that your client may need to contact.

## Slide 32

Safeguarding taxpayer data is a top priority for FTB and the IRS.

It is also, the responsibility of businesses, organizations, and individuals that receive, maintain, share, transmit, or store taxpayer's personal information to safeguard their client's taxpayer data.

## Slide 33

Taxpayer data is defined as any information that is obtained or used in the preparation of a tax return, such as income statements, notes taken in a meeting, or recorded conversations.

Whether you are paid or unpaid for your services, a one person operation or a large corporation, have one client or many, it is critical to protect taxpayer data.

Putting safeguards in place prevents fraud and identity theft, and enhances customer confidence and trust.

IRS Publication 4557, will help you understand and meet your responsibility to safeguard taxpayer data.

# Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

## Slide 34

There are a growing number of laws, regulations, standards, and best practices that cover the privacy and security of taxpayer data. IRS Publication 4557 references those that provide guidelines on establishing safeguards that you:

- Preserve the confidentiality and privacy of taxpayer data by restricting access and disclosure.
- Protect the integrity of taxpayer data by preventing improper or unauthorized modification or destruction.
- Maintain the availability of taxpayer data by providing timely and reliable access and data recovery.

## Slide 35

This concludes the information portion of our webinar. Now it is time for questions. Please note, that we will be answering general questions. For account specific questions, please call us.

You can submit your questions through the “Ask Question” window on your Go To Meeting Dashboard.

Depending on the volume of questions received we may present a series of standard questions and answers.

If we cannot answer all of your questions within our allotted time period, we will email you with the answer.

Now it is time for your questions and I am going to turn the time over to Joseph.

Thank you, Larry. Here is our first Question. I electronically filed my client's return only to find out it's rejected because another return using the same social security number has already been filed for that tax year. Now what?

Once you realize that one of your clients has been a victim, the client should contact us immediately. Our ID theft resolution coordinator can be contacted at:

FRANCHISE TAX BOARD  
ID THEFT RESOLUTION COORDINATOR MS A462  
PO BOX 2952  
SACRAMENTO CA 95812-2952

## Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

That address again is:

FRANCHISE TAX BOARD  
ID THEFT RESOLUTION COORDINATOR MS A462  
PO BOX 2952  
SACRAMENTO CA 95812-2952

Telephone number is 916.845.3669.  
Our fax number is 916.843.0561.

That phone and fax number again are:

Telephone number again is 916.845.3669.  
The fax number again is 916.843.0561.

Your client will be asked to fill out the FTB 3552PC Identity Theft Affidavit. They should also be prepared to send copies of the following documents to us, if available:

- Passport,
- Driver license or DMV identification card,
- Social security card,
- Police report,
- Internal Revenue Service letter of determination

The return that was rejected by e-file will need to be submitted on paper. The processing of the return will likely take several months, so remind your client about the delay if they are expecting a refund.

**We have another question here:** Does FTB have PIN numbers for ID Theft victims?

We do not at this time; however, we are reviewing the IRS program and other states to determine if this is feasible in California.

**Next question is:** If my client is a victim of ID Theft, how long will they have to wait for their refund?

Likely it will take several months for the processing of the return, so remind your client about the delay if they are expecting a refund.

If it has just been identified that the individual is victim, it will take about 12 to 16 weeks to receive the refund and this is very dependent on how quickly they provide the necessary information to the departments. The next year, their return will need further review; however, we work these accounts as a priority and they should get their refund within 4-6 weeks if they're e-file is first.

## Transcript –Tax Fraud & Identity Theft - Protecting your clients and yourself Webinar

**Here is another question:** Why did FTB send my elderly client a request to file a return?

We received information that your client either:

- Filed a federal return with the IRS using a California address or
- EDD reported wages with your client's name and SSN number.

This information indicates that you reside in California or earned California wages, requiring your client to file a California return based on the information.

**The next question is** Why did Franchise Tax Board send a Request to File letter to my client who resides outside of California and has never resided in the state of California?

Based on the income source reported from either IRS, EDD, or any other 3rd party income sources, the information indicates that you either resided in California or earned California sourced income, which requires you to file a California return based on your gross income.

One moment please as we look at additional questions.

**The next question is** IRS efile was rejected due to fraudulently filed returns. California accepted the efile. We filed Form 14039. Should we copy 14039 to FTB?

Once you find out that the individual is a victim of Identity Theft or there is fraudulent activity on a certain tax year or specific tax year, that information can be submitted to Franchise Tax Board for review. Depending on what information we have on the individual we will take a look at that time.

Slide 36

Thank you, Joseph. So that brings us to the end of our webinar. If you would like to view this webinar or prior ones, please go to our website and click on "News & Events". Webinars is the third item listed on the navigation bar.

Slide 37

We hope you found this webinar interesting and helpful. On behalf of the California Franchise Tax Board, thank you for attending today's webinar.