Tax Refund Fraud and Identity Theft

IRS - Criminal Investigation
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Internal Revenue Service
Criminal Investigation

Criminal Investigation serves the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

Office of Refund Crimes Mission

To support the CI mission by identifying and developing criminal tax schemes for the purpose of referring and supporting high-impact criminal tax and related financial investigations. This mission will be achieved through the use of human and artificial intelligence and via collaboration with stakeholders.
What is Refund Fraud?

Refund fraud results from the filing of federal income tax return(s) that are supported by false information/statements with the intent to defraud the government.

Refund Fraud Programs

• **Questionable Refund Program (QRP)** Schemes consist of individuals filing tax returns claiming false income tax refunds that are generally based on false Federal income tax withholdings or false refundable credits, for example education credits. These are generally not legitimate taxpayers and returns are filed for the sole purpose of defrauding the government.

• **Return Preparer Program (RPP)** schemes consist of Abusive Return Preparers that prepare false income tax returns frequently for large numbers of taxpayers. These are legitimate taxpayers, who may or may not know their returns are false or fraudulent.

Detecting Refund Fraud

• CI has 4 Scheme Development Centers (SDCs) whose primary mission is detecting refund fraud.

• SDCs have uncovered numerous QRP/RPP and Identity Theft refund fraud schemes

• CI has dedicated one SDC to Identity Theft. This location processes and researches ID Theft leads received from the field.

• CI Field Offices often identify schemes from information received from the public and legitimate preparer community.
Identity Theft

• The FTC estimates that as many as 9 million Americans have their identities stolen each year. Can happen to anyone.
• Stolen Identities are obtained through various methods:
  - Dumpster Diving
  - Skimming
  - Phishing
  - Theft
  - Pre-texting

Tax Refund Identity Theft

• Occurs when someone uses your personal information without your permission to file a tax return.
• Identity Theft can affect taxpayers in two ways:
  – Refund-related
  – Employment-related or Income-related

Current Trends in Identity Theft

• False returns being prepared using false ITINs
• Stolen dependants for additional credits (EITC)
• Use of identity by prior year tax return preparer
• Use of identities of those not likely required to file a Federal tax return (elderly, homeless, children, recently deceased, etc.)
• Use of non-wage and withholding tax returns (i.e. Interest Income, Schedule D, Schedule C)
• Invasion of legitimate tax return preparer’s computer networks to steal client data
### Identity Theft Statistics

<table>
<thead>
<tr>
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<th>FY 2013*</th>
<th>FY 2012</th>
<th>FY 2011</th>
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<tbody>
<tr>
<td>Investigations Initiated</td>
<td>1370</td>
<td>741</td>
<td>276</td>
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<tr>
<td>Prosecution Recommendations</td>
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<td>456</td>
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<tr>
<td>Indictments/Informations</td>
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<td>387</td>
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<td>Sentenced</td>
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<td>181</td>
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<td>Percent to Prison</td>
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<td>90.6%</td>
<td>100.00%</td>
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<tr>
<td>Avg. Months to Serve</td>
<td>39</td>
<td>44</td>
<td>44</td>
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</tbody>
</table>

* FY2013 numbers are for the period 10/1/2012 – 09/30/2013

### Coordination Amongst IRS Functions

- Treasury Checks
- Prepaid Cards
- ID Theft Lists
- Filter Updates

### Identity Theft Enforcement Actions

[Map showing enforcement actions across the United States]
Prepaid Cards

• The use of prepaid cards in ID theft schemes has increased significantly.
• Hundreds of billions of dollars are loaded to Open-Loop prepaid cards each year.
• Numerous government programs employ prepaid cards to distribute benefits. Past estimates indicate such activity is in the billions each year.
• The prepaid cards add a level anonymity.

ID Theft – Tax Nexus

• Street level crimes vs. “tax crimes”
  – Common characteristics of targets
  – Tax returns/tax refunds used by organized criminal organizations
  – Historical crimes vs. “real time” requires changes investigative methods/strategy and investigative procedures/processes

Enforcement and Partnering

• Stolen Identity Refund Fraud (SIRF)
  – On September 20, 2012, DOJ Tax issued Directive 144, Stolen Identity Refund Fraud
  – Provides Federal law enforcement officials with the ability to timely address a subset of identity theft cases.
  – Specifically focuses on identity theft in the context of fraudulent tax refunds and provides for streamlined initiation of these investigations and prosecutions.
Tax Division Directive 144

• In “Stolen Identity Refund Fraud” (“SIRF”) cases, USAO may, without prior authorization from Tax Division:
  – Open tax-related GJ investigations;
  – Charge criminals engaged in SIRF crimes by complaint;
  – Obtain seizure warrants for forfeiture of criminally derived proceeds arising from SIRF crimes.

What constitutes a “SIRF” case?

– Cases involving a fraudulent claim (or attempted claim) for a tax refund wherein the fraudulent claim for refund (i.e., tax return) is in the name of the person whose personal identification information (“PII”) appears to have been stolen or unlawfully used to make the claim, and...
– ...the claim is intended to benefit someone other than the person to whom the personal identification information belongs.

What constitutes SIRF crimes, cont’d

• SIRF cases also include the negotiation (or attempted negotiation), possession, or transfer, of refund proceeds resulting from the above-defined scheme.
• SIRF cases do not include situations in which the person whose PII was used to make a fraudulent claim for tax refund intended such claim to be filed on his or another’s behalf.
Tax Division Directive 144

Typical SIRF charges

- SIRF crimes generally implicate the following statutes:
  - 18 U.S.C. §§ 286, 287
  - 18 U.S.C. § 510 (Treasury check forgery)
  - 18 U.S.C. § 641 (theft of public money)
  - 18 U.S.C. §§ 1028, 1028A (ID theft; aggravated ID theft)
  - 18 U.S.C. § 1029 (access device fraud)
  - 18 U.S.C. §§ 1341, 1343 (mail, wire fraud)
  - 18 U.S.C. §§ 1708, 1709 (theft or receipt of stolen mail; mail theft by postal employee)

Dir 144 – Types of Cases Within the Directive

- Situation in which PII is stolen from a non-culpable person and then used to make a fraudulent claim for tax refund benefitting someone other than the person to whom the PII belongs;
- Situation in which a return preparer makes and/or files a fraudulent claim for tax refund using non-client PII that has been stolen or unlawfully used to make the claim;
- Situation in which a culpable person in schemes matching the above scenarios:
  - Receives, endorses, negotiates, utters, transfers, or cashes a refund check;
  - Receives, possesses, or transfers fraudulent refunds in bank accounts or through prepaid debit cards; or
  - Makes ATM withdrawals from prepaid debit cards loaded with refunds.

Dir 144 – Types of Cases Outside the Directive (i.e. exceptions to Delegation)

- Situation in which a culpable taxpayer files a fraudulent claim for refund using his/her own SSN but claims a false dependency exemption using another’s SSN without lawful authority;
- Situation in which a return preparer alters the tax return of a client with or without the client’s knowledge or consent, claiming a higher refund;
- Situation in which a return preparer and a client conspire to file a false tax return claiming an inflated refund;
- Situation in which a return preparer exploits or uses a client’s PII without the client’s knowledge or consent, solely or in combination with another client’s information, to file a fraudulent claim for tax refund. (Or potential clients.)
“Keneally Memorandum”

- ** Expedited Review** – Set out in Memorandum of 9/18/2012 from Kathryn Keneally to all U.S. Attorneys.
  - Expedited and parallel review process for SIRF indictments where arrests have been made, or are imminent, by state, local, or federal agencies based on evidence of SIRF.

- **Keneally Memo -- Expedited Review**
  - If suspect arrested based upon evidence of SIRF, IRS-CI field office must be informed;
  - If SIRF investigation referred to a USAO by another agency, IRS-CI must be informed and given opportunity to participate in investigation;
  - IRS-CI must be provided copy of executed affidavit and complaint (if any);
  - IRS-CI must be notified of an indictment recommendation by the USAO;

- **Keneally Memo -- Expedited Review**
  - Tax Division will perform review of indictment package (pros memo and proposed indictment) simultaneously with AUSA internal review;
  - Tax Division will be given 3 calendar days to review indictment package. If Tax Division does not respond within 3 days, and AUSA is scheduled to present the matter to the GJ, USAO has authority to proceed as though Tax Division approval given.
Enforcement and Partnering

• Law Enforcement Assistance Program (LEAP)
  Identity Theft Victim (Formerly known as the Identity Theft Victim Disclosure Waiver Process)
  – Local law enforcement and other federal agencies play a critical role in combating identity theft. As part of this collaborative effort, IRS developed the Identity Theft Victim Disclosure Waiver Process
  – On March 29, 2013, the program was implemented Nationwide.
  – This program provides for the disclosure of federal tax return information associated with the accounts of known and suspected victims of identity theft with the express written consent of those victims.

ID Theft Summaries

Self-Proclaimed “First Lady” of Tax Fraud Sentenced
On July 16, 2013, in Tampa, Fla., Rashia Wilson was sentenced to 234 months in prison on wire fraud and aggravated identity theft charges stemming from her scheme to defraud the IRS, and for being a felon in possession of a firearm. Wilson was also ordered to forfeit $2,240,096, which constituted the proceeds traceable to the offense. According to court documents, from at least April 2009, through their arrests in September 2012, Rashia Wilson and her co-conspirator, Maurice J. Larry, engaged in a scheme to defraud the IRS by negotiating fraudulently obtained tax refunds. They did so by receiving U.S. Treasury checks and pre-paid debit cards that were loaded with proceeds derived from filing false and fraudulent federal income tax returns in other persons’ names, without those persons’ permission or knowledge. Wilson, Larry, and others then used these fraudulently obtained tax refunds to make hundreds of thousands of dollars’ worth of retail purchases, to purchase money orders, and to withdraw cash.

Leaders of Multi-Million Dollar Fraud Ring Sentenced
On May 8, 2012, in Montgomery, Ala., Veronica Dale, of Montgomery, was sentenced to 334 months in prison and Alchico Grant, of Lowndes County, Ala., was sentenced to 310 months in prison. Dale and Grant were both ordered to pay over $2.8 million in restitution to the IRS. In September 2011, Grant pleaded guilty to five charges from two separate indictments, including conspiracy, wire fraud and aggravated identity theft. In October 2011, Dale pleaded guilty to seven charges from two indictments, including conspiracy, filing false claims, wire fraud and aggravated identity theft. According to court documents, beginning in 2009 and continuing through 2010, the defendants were part of a scheme that involved fraudulently obtaining tax refunds by filing false tax returns using stolen identities. Dale admitted that she filed over 500 fraudulent returns that sought at least $3,741,908 in tax refunds. These returns were filed using the names of Medicaid beneficiaries, whose personal information Dale obtained while working for a company that serviced Medicaid programs. Dale directed the refunds to different bank accounts that she and other co-conspirators controlled.
ID Theft Summaries

Three South Florida Women Sentenced in Identity Theft Tax Refund Fraud Scheme

On April 25, 2013, in Fort Lauderdale, Fla., Alci Bonannee, of Fort Lauderdale, and Sonyini Clay, of Miami Gardens, were sentenced for their roles in an identity theft tax refund fraud scheme. Bonannee was sentenced to 317 months in prison, three years of supervised release and ordered to pay $1,908,182 in restitution to the IRS. Clay was sentenced to 121 months in prison and three years of supervised release. This was a large-scale identity theft tax fraud scheme that operated from December 2010 through June 2012. During the course of the scheme, there were approximately 2,000 fraudulent tax returns submitted to the IRS seeking $11 million in refunds. Bonannee filed a majority of the fraudulent tax returns from her house and other locations using compromised personal identification information obtained from a nurse at a local hospital. Clay filed several hundred fraudulent tax returns from her house and other locations. Mozley was sentenced on March 29, 2013 to 42 months in prison, three years of supervised release and ordered to pay $1,908,182 in restitution.

ID Theft Summaries

• A Milford, MA woman, Rosa Colon, 44, a former tax preparer, was sentenced to 61 months in prison and ordered to pay $400,000 in restitution, for filing hundreds of false income tax returns for her clients and identity theft.
• In August 2012, Colon pleaded guilty to a 32-count indictment charging her with aggravated identity theft, filing false claims with the IRS, and forging endorsements on U.S. Treasury checks.
• Colon operated a business called X-Press Taxes in Somerville, Mass. During the tax years 2004 through 2010, Colon prepared hundreds of false income tax returns for her clients. On numerous occasions, when preparing income tax returns for clients, Colon prepared two different versions of the return. Colon gave one version of the return to the client, but filed another version seeking a larger refund with the IRS, and kept the additional fraudulent amount for herself. She attached bogus W-2 forms claiming nonexistent wages and withholdings. She also claimed a client’s two-year old child as a dependent on another client’s tax return, charging $1,000 for this service.

ID Theft Summaries

• On August 15, 2013, a Lynn, MA man, Roosevelt Fernandez, 33, was sentenced to 42 months in prison, and ordered to pay $116,679 in restitution to the IRS.
• On Jan. 16, 2013, Fernandez pleaded guilty to a 13-count superseding information charging him with aiding and assisting in the preparation of false income tax returns and identity theft.
• Fernandez held himself out as an experienced tax return preparer operating a business called H&T Multi Services in Lynn, Mass. On numerous occasions, Fernandez inserted false and fabricated information into his clients’ income tax returns. This information included wholly fictitious and fraudulently inflated claims relating to deductions and credits. In addition, Fernandez omitted the names and personal identifying information of dependent children from their actual parents’ income tax returns, and then charged other clients $500 or more to add those dependents to their income tax returns in order to generate larger tax refunds.
Identity Theft Presentation

- New England ID Theft Coordinator
  Criminal Leads Only
  Special Agent Kevin Millen
  860-756-4719

- ID Theft Toolkit on IRS.gov