



**Internal Revenue Service (IRS)**

**September 13, 2021**

# Tax Return Process

Understanding the Tax Return Process and Identity Theft



# Agenda Items

## Discussion Points

- Who Should File a Tax Return?
- Legislative Changes
- How Legislation Impacted Filing
- How Returns are Filed
- IRS Challenges
- Tax Return Processing
- Identity Theft and Non-Identity Theft Filters





# Who should file a tax return?

2020 Filing Requirements for Most Taxpayers		
If your filing status is . . .	AND at the end of 2020 you were . . .	THEN file a return if your gross income was at least . . .
Single	Under 65	\$12,400
	65 or older	\$14,050
Married Filing Jointly	Under 65 (both spouses)	\$24,800
	65 or older (one spouse)	\$26,100
	65 or older (both spouses)	\$27,400
Married Filing Separately	Any Age	\$5
Head of Household	Under 65	\$18,650
	65 or older	\$20,300
Qualifying Widow(er)	Under 65	\$24,800
	65 or older	\$26,100



# Notable Legislative Changes Impact Typical Filers & Those Without Filing Requirements

## Notable Legislative Items – Extended to individuals without a requirement to file a tax return.

- **Economic Impact Payment (EIP)** – Three rounds of EIPs were authorized as an advance payment of the Recovery Rebate Credit. The IRS issued two rounds of EIP in 2020 and a third EIP to eligible individuals on March 12, 2021.
- **Recovery Rebate Credit (RRC)** – For taxpayers that did not receive the full amount of the first or second EIP, they are able to claim the 2020 RRC. The taxpayer must file a 2020 tax return even if they don't normally file. The third EIP will not be used to calculate the 2020 RRC.
- **Advance Child Tax Credit (AdvCTC)** – Early payments from the IRS of 50 percent of the estimated amount of the CTC that you may properly claim on your 2021 tax return during the 2022 tax filing season. Monthly payments began July 2021.
- Legislation included collaboration with Social Security Administration, Veterans Administration, and outreach to underserved taxpayers such as homeless shelters. Taxpayers receiving these benefits and did not file a tax return, may receive the EIPs.



# How did the Pandemic Relief Impact Filing?

## Tax Filings

- The IRS has experienced an increase in tax filings, as recent legislation was implemented in response to pandemic relief. These legislative items have included Economic Impact Payments (EIP), Recovery Rebate Credits (RRC), and Advance Child Tax Credit Payments (AdvCTC).

## Legislation

- Coronavirus Aid, Relief, and Economic Security Act (CARES) – Introduced EIP1.
- COVID-related Relief Act of 2020 – Introduced EIP2
- American Rescue Plan Act (ARPA) – Introduced EIP3 and AdvCTC.

EIP1	EIP2	EIP3	AdvCTC
<ul style="list-style-type: none"> <li>Meet income limitations</li> <li>US Citizen</li> <li>US Resident Alien</li> <li>Not Claimed as Dependent by another Taxpayer</li> <li>Made less than certain income limits</li> </ul>			<ul style="list-style-type: none"> <li>Filed a 2019 or 2020 tax return &amp; claimed the Child Tax Credit on the return <b>or</b></li> <li>Provided your information in 2020 to receive the EIP with the Non-Filer Tool <b>or</b></li> <li>Provided IRS information in 2021 with the Non-Filer Tool:</li> <li>Lived in a main home in the US for more than half the year (the 50 states and the District of Columbia) or filed a joint return with a spouse who has a main home in the US for more than half the year; <b>and</b></li> <li>A qualifying child who is under age 18 at the end of 2021 and who has a valid Social Security number; <b>and</b></li> <li>Made less than certain income limits.</li> </ul>
<ul style="list-style-type: none"> <li>\$1200 Single/\$2400 for Joint Taxpayers</li> <li>\$500 for a qualifying child</li> </ul>	<ul style="list-style-type: none"> <li>\$600 Single/\$1200 for Joint Taxpayer</li> <li>\$600 per qualifying child</li> </ul>	<ul style="list-style-type: none"> <li>\$1400 Single/\$2800 for Joint Taxpayers</li> <li>\$1400 for each qualifying dependent</li> </ul>	One-half is advanced: <ul style="list-style-type: none"> <li>\$3,600 (\$1,800 Advanced) for children ages 5 and under at the end of 2021; and</li> <li>\$3,000 (\$1,500 Advanced) for children ages 6 through 17 at the end of 2021.</li> </ul>



# How are Tax Returns Filed?

**Tax Returns are prepared and received from a variety of sources. Traditionally, tax returns are submitted to the IRS via:**

- **Electronic (e-file)** - Submitted from Practitioners, Do-It-Yourself from software, Volunteer Income Tax Assistance (VITA), Low Income Tax Clinics, Free File Alliance, etc.
- **Paper** – Paper Tax Return Submitted by Mail

*\*New\* for EIP & AdvCTC Legislation – Streamline Tax Returns via the Non-Filer Sign Up Tool*

**Filing a Streamline Tax Return when a taxpayer does not have a traditional filing requirement provides IRS information about:**

- Address
- Direct Deposit of Refund, if taxpayer has a bank account or reloadable debit card
- Information around income and/or qualifying dependents



# Challenges – Risk of Fraud

## Identity Theft

- Identity theft for the purpose of tax fraud occurs when an individual uses another person's name and Taxpayer Identification Number (generally a Social Security Number (SSN)) to file a fraudulent tax return to obtain a fraudulent tax refund.
- Many individuals who are victims of this type of identity theft may be unaware that their identity has been used to file fraudulent tax returns. The individuals victimized are typically those who are not required to file a tax return.
- However, for those individuals who are required to file a tax return, the identity theft goes unknown until the legitimate filer attempts to file a tax return after the thief has already filed - resulting in a duplicate filing. This causes the Internal Revenue Service (IRS) to hold the return until it can determine which return is legitimate.
- The IRS does screen return for filing requirements. If a taxpayer has a filing requirement, and attempts to file a streamline return, the return will be flagged for further review.

## Non-IDT Screening

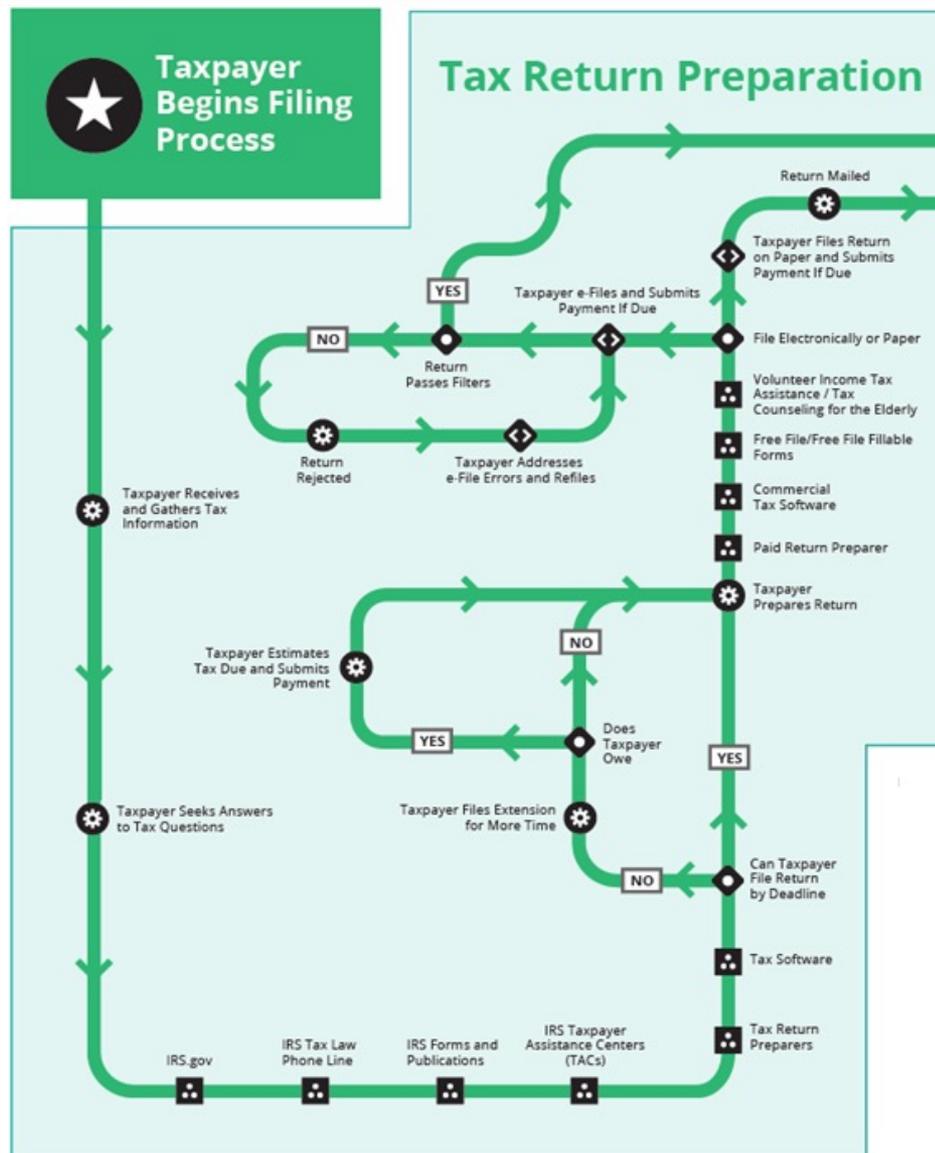
- The IRS does screen for certain income types vulnerable for fraud such as overstated wages and/or withholding credits. This is a scheme for taxpayers to bolster refunds. The IRS may hold these refunds until income withholding is verified by the filing of a Form W2 from the employer. Taxpayers will generally be notified the IRS is reviewing the return.
- Refundable Credits are vulnerable for fraud or improper payments. IRS has filters in place for questionable requests for refundable credits such as Earned Income Tax Credit, American Opportunity Credits, Child Tax Credits, Child Care Credits, etc. Taxpayers may be notified and requested to provide substantiation of the credits and/or dependents.



# Taxpayer Process

The IRS partners with the tax industry to ensure electronic programs have the most accurate tax information, including late legislative changes.

The IRS collaborates with the Security Summit and ISAC to distribute messaging for our Industry partners and stakeholders encouraging safety and security protocols to reduce identity theft and fraudulent activities.

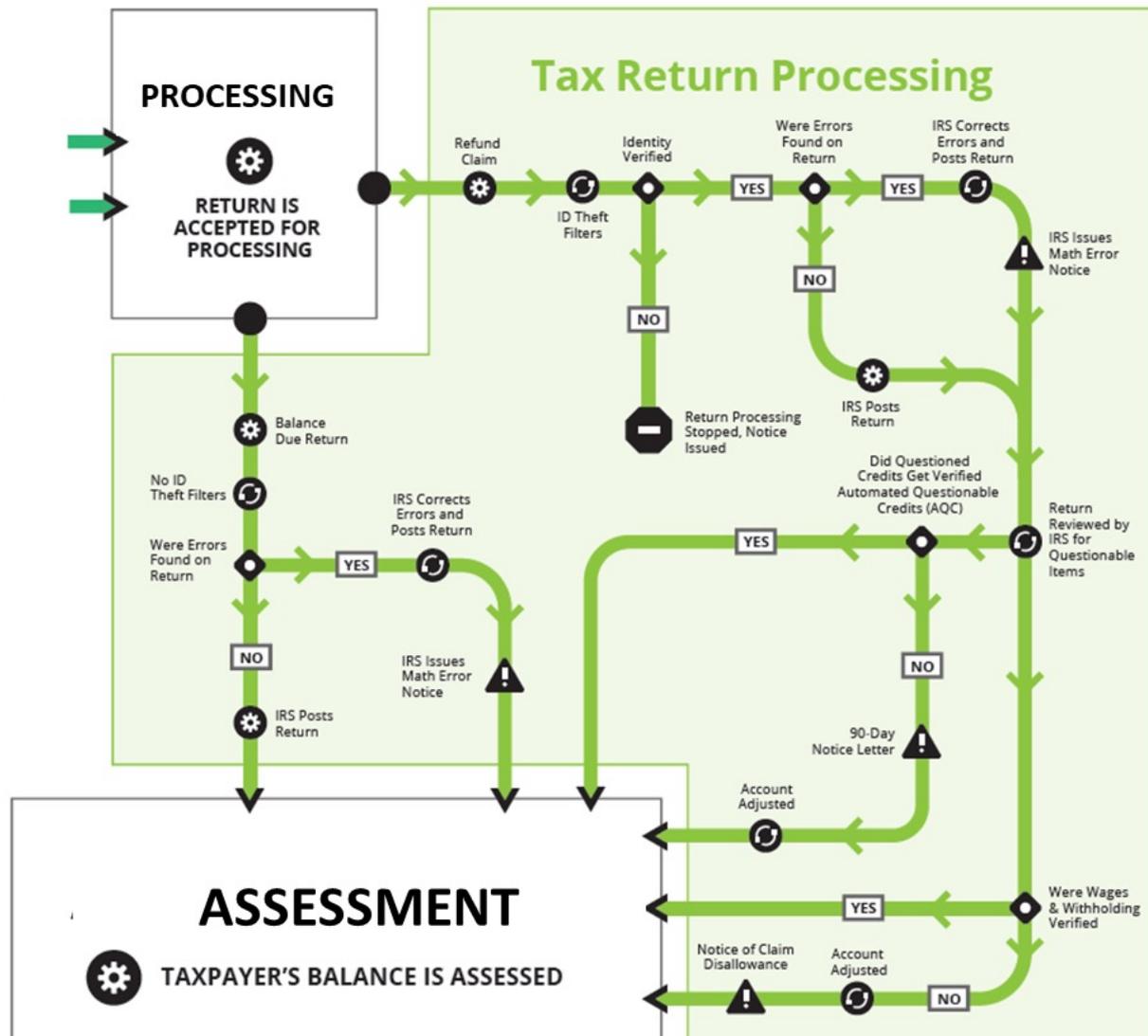




# Tax Return Process

The Return Integrity Verification Operation (RIVO) is responsible for pre-refund fraud detection, revenue protection activities related to fraudulent income claimed on tax returns and/or identity theft.

The activities RIVO performs are a critical piece of IRS's strategy to address Identity Theft and prevent unwarranted refund issuance by stopping fraud attempted through Individual Master File (IMF) return filings, RIVO also works on Business Master File (BMF) IDT Filters.





# If Selected for Identity Theft Filters

## Identity Theft Selections

- Identity theft filters are constructed based on patterns of fraudulent behavior identified by Criminal Investigation or other Subject Matter Experts. The IRS uses various methodologies to monitor and scan for inconsistencies.
- Individual tax returns processed by the IRS pass through a series of identity theft-related filters prior to the return being processed. Returns that trigger an alert are automatically paused from the process and a letter is mailed to the taxpayer to determine if they filed the return in question.
  - No Response: The IRS will not process the return.
  - Taxpayer Authenticates Their Identity: The IRS will continue processing and the refund will be issued if there are no other issues. Options to authenticate include:
    - ID Verify (Online)
    - Phone Call
    - In Person
    - Correspondence



## Non-Identity Theft Selections – Combat Reporting of False Income and Withholding Credits

- Models and filters are used to score each refund return for the potential of overstated income/withholding. The IRS will review returns that feature certain variables including ineligible persons claiming Earned Income Tax Credit, Recovery Rebate Credit claims, and returns with disallowed credits.
- Systemic Verification (SV) is an automated process in which the IRS will hold the refund and systemically match the Form W2 wages and withholding reported on a tax return. Once the income/withholding is verified the refund will be released. Multiple outcomes include:
  - Income that appears to be good - the refund is released.
  - Potential for fraud/false Forms W2 - the return is referred for further review to verify the legitimacy of the Form W2.
  - Potential for identity theft - the return is sent through Taxpayer Protection Program (TPP).



# Why are these processes in place?

## Current Processes

- IRS processes are designed to protect against potential identity theft and fraudulent activity, as well as to ensure payments are provided to the rightful person.
- Current processes allow for further tax return review after taxpayer authentication completes. If there are no further issues with the tax return, the refund is immediately issued in most cases.
- Both IDT and non-IDT filters are monitored, reviewed, and refreshed each year.