



Personal Income Tax Fraud Investigation Unit

FTA Technology Conference
August 2016
Pittsburgh, Pennsylvania

- Refund Fraud Prevention Program
- Challenges We Needed to Address
 - Reviewing suspicious tax returns
 - ID letters
 - Providing assistance to victims
 - FTA Fraud Summit
- Planning and Response

- Business need to prevent fraudulent and erroneous refunds
- Need a Solution to analyze a large volume of returns in order to better select returns for review
- Identified IT resources for data analytics solution from a vendor with knowledge of DOR business

- *Established a successful partnership*

Vendor state tax subject matter expertise (SME) helped change and is improving our processes as part of this public-private partnership
- *Acquired desired technology*

Identity validation and a project-specific data warehouse were acquired

Implementation

- Collaboration between DOR and vendor to establish business rules and selection criteria
- Incorporated contractor resources:
 - Data analytics infrastructure
 - Subject matter (tax compliance) expertise

Implementation

- Interfaced with current processing system minimized large work effort from DOR
- Use of prior year return data to validate selection criteria
- Approximately six months to implement

PA Personal Income Tax Differences

- Rate is flat 3.07%
- No earned income credit
- No offset of losses in one class of income (business) against positive income in another class (compensation)
- Some statistics
 - Average refund is a little about \$200
 - Only about 1/3 of taxpayers get refunds

Results



All Rules	Reduced Refund	Additional Payments
Year 1	\$11,029,689	\$1,374,991
Year 2	\$14,722,526	\$2,086,165
Year 3*	\$6,600,170	\$1,436,387

ID Related Rules	Reduced Refund
Year 1	\$270,440
Year 2	\$988,523
Year 3*	\$1,408,654

* As of 6/30/16

Needs not being met...



- Specialized review of suspicious returns
- ID letters
- Fraud victims
- FTA Fraud Summit
- Outreach and education
- Ability to expand in the future

- Fraudulent returns being caught in normal suspension criteria
- Examiners did not know what specifically to look for
- Fraudulent refunds getting released and valid returns being held up
- Need for dedicated resources to review questionable returns to make determinations

ID Letter Approach



- Year 1 and 2
 - ID letter as last resort
 - Call center to confirm identities
- Year 3
 - Larger volume of letters
 - Need for web based solution to validate identities
- Need for support of new solution and those who do not have access to the web

- Office of Taxpayer Rights Advocate (OTRA)
 - Review cases
 - Assign to Bureau of Individual Taxes for adjustment
 - Back to OTRA for final decision
- Cases quadrupled every year for three years
- Inefficient process that demanded more manpower
- No notification for people who are unaware their ID has been stolen

- Participation in FTA Fraud Summit
- Leads reporting from software vendors and the IRS
- Massive amounts of data, lack of expertise and personnel
- Need for resources dedicated to the effort

- Organization to support all facets related to fraud and ID theft
- Conducted research with other states on resources and organizational structure
- Determined FTE's and classifications to support the operation
- Unit created in March, 2016

Results so far...



- 845 Identity Theft cases opened
- Over 1,100 calls answered
- Over **\$3.4 M** in fraudulent refund returns reviewed
- Over **\$2.9M** in fraudulent refunds prevented

- Constantly Evolving
- Continue work with Fraud Summit initiatives
- Outreach and education
- Process improvements
- Expansion into other taxes and coordination with other agencies

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