

Optimizing Income Tax Return Identity Fraud Prevention





Content

- Common Fraud Definitions that drive Tax Refund Fraud Detection
 - ▶ Why fraud definitions are critical
- Tax Refund population
 - ▶ Who's asking for refunds?
 - ▶ Who are we contacting for verification?
 - ▶ More importantly– where do agencies look for fraud dollars?
- Putting it all together- definitions, verifications and outcomes
- Research indicates the common definition may not be accurate



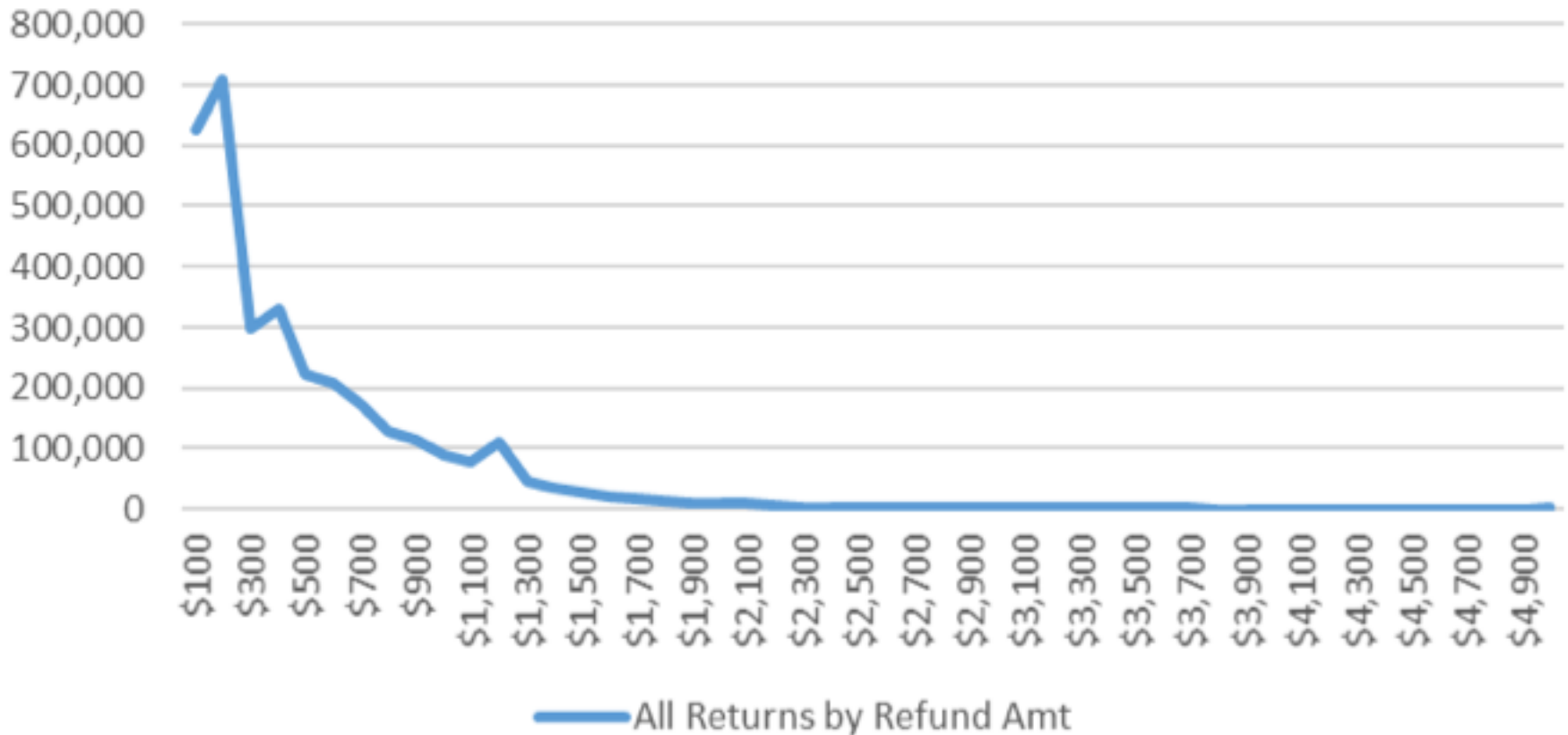
Common Definitions

- Generally accepted, two-part definition of “ID fraud” used in Tax Refund Fraud.
 - ▶ Confirmed fraud– where a risky return generates a notification to which a real taxpayer responds and claims to have not filed the refund request
 - ▶ Non-responders- who receive a notification and do not respond
- Definitions are critical
 - ▶ Dictate who is impacted by fraud prevention efforts and who is not
 - ▶ They become a self fulfilling prophecy
 - ▶ Dramatically impact perceived false positives



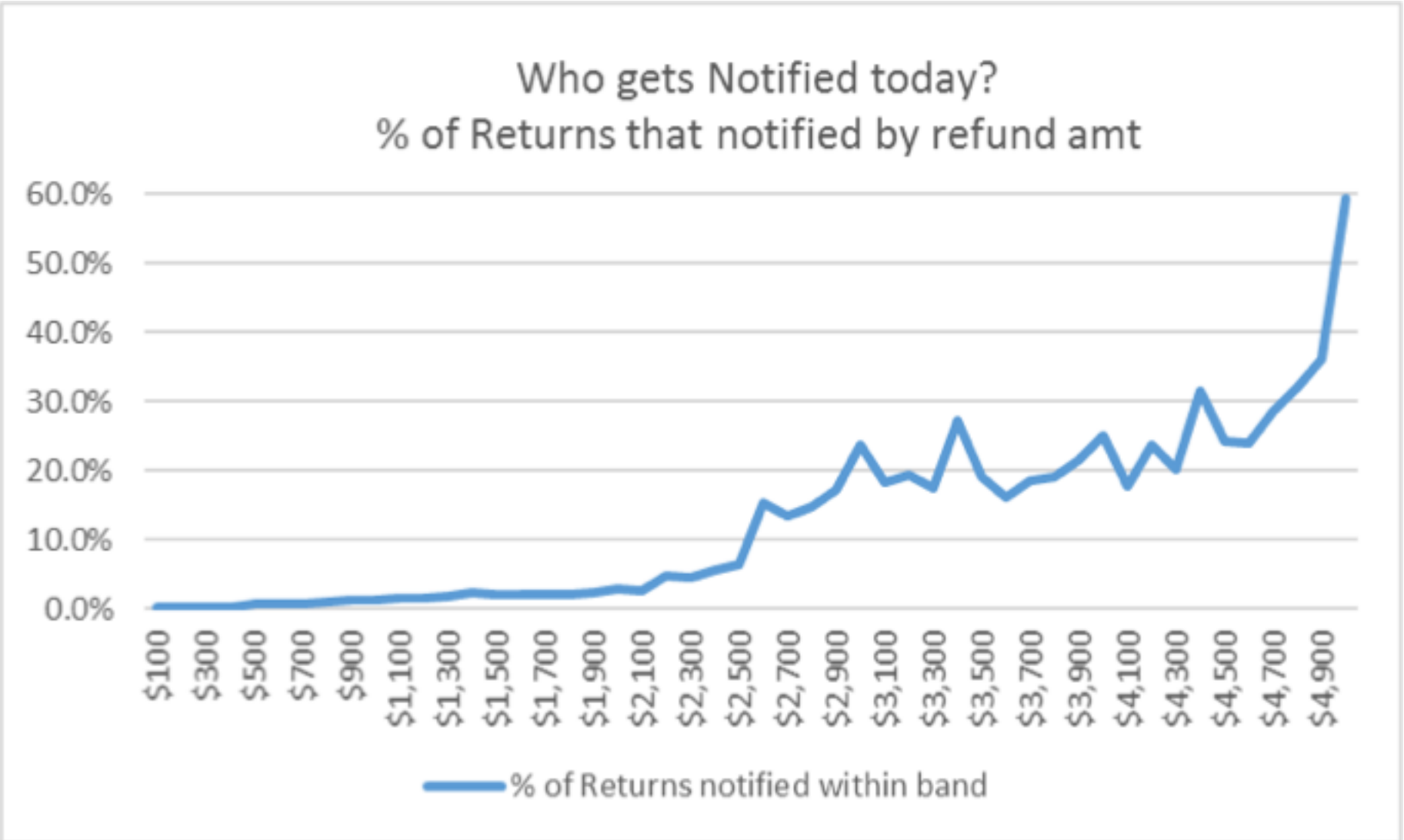
Majority of Requested Refund Amounts are low

Who wants a refund?
Number of returns by Refund Amt





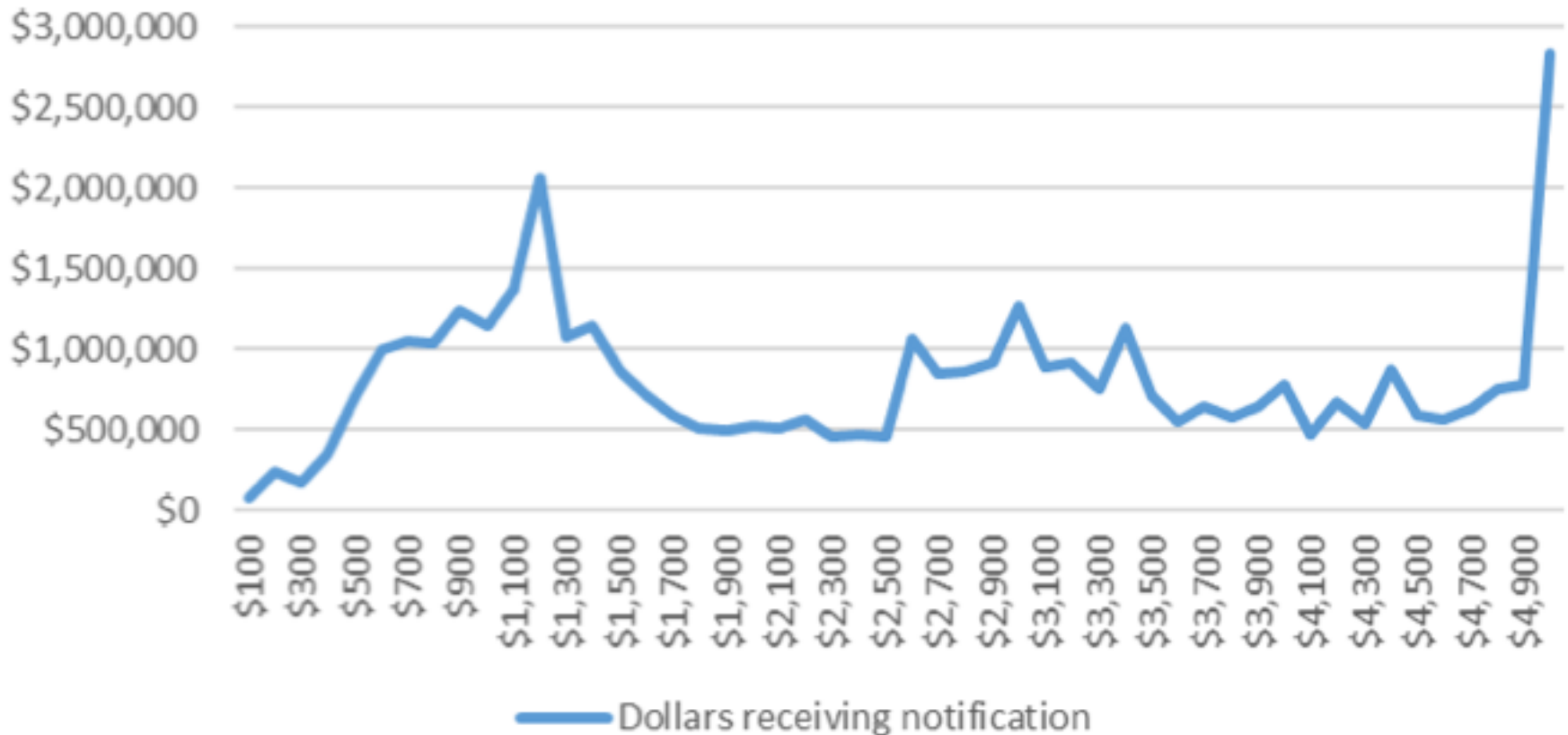
... and people who request large refunds are much more likely to be flagged as suspicious





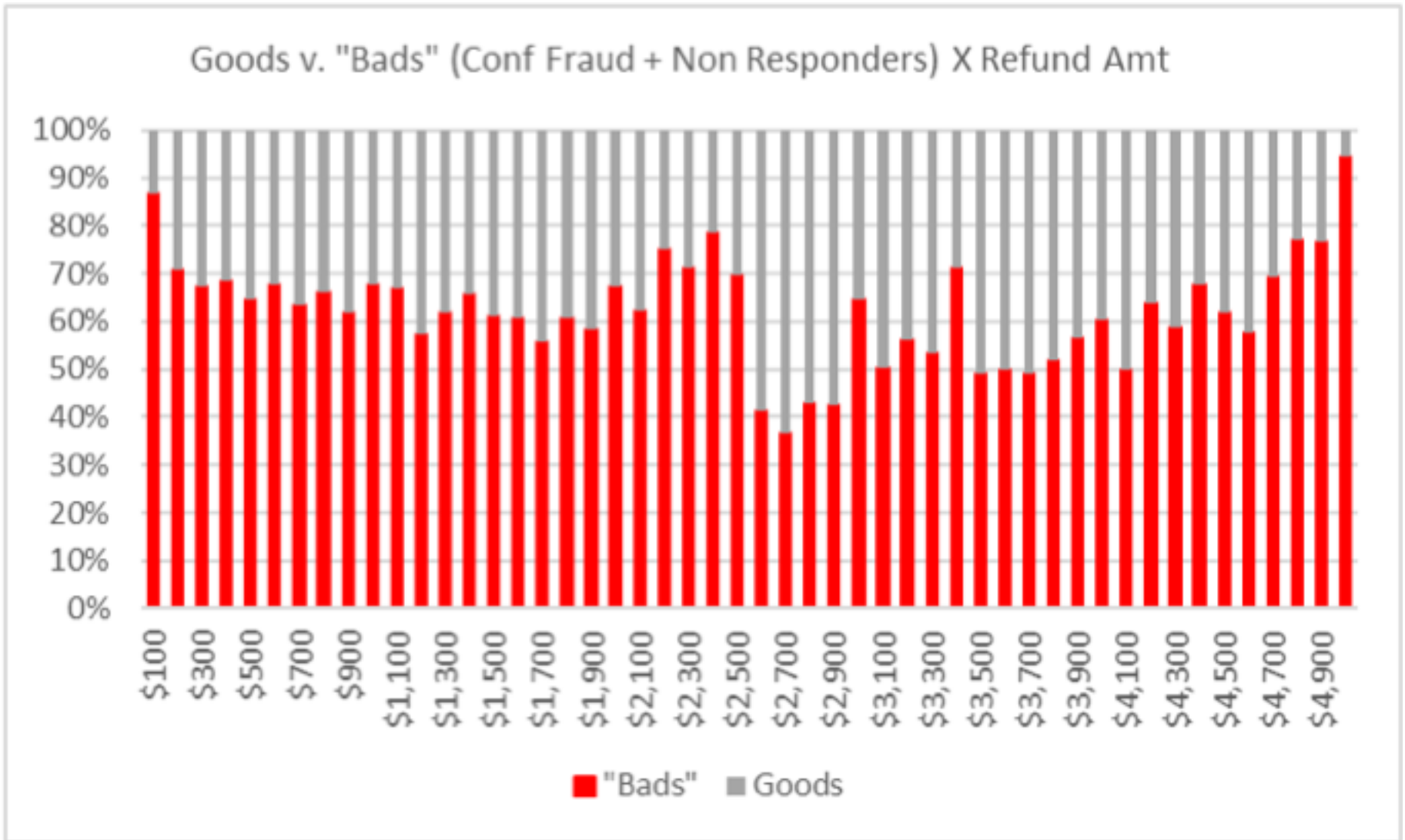
But when we convert “percentage of returns” to dollars, returns with lower refund amounts get plenty of attention in terms of suspected fraud

Who gets Notified today?
Total Dollars that received a notification





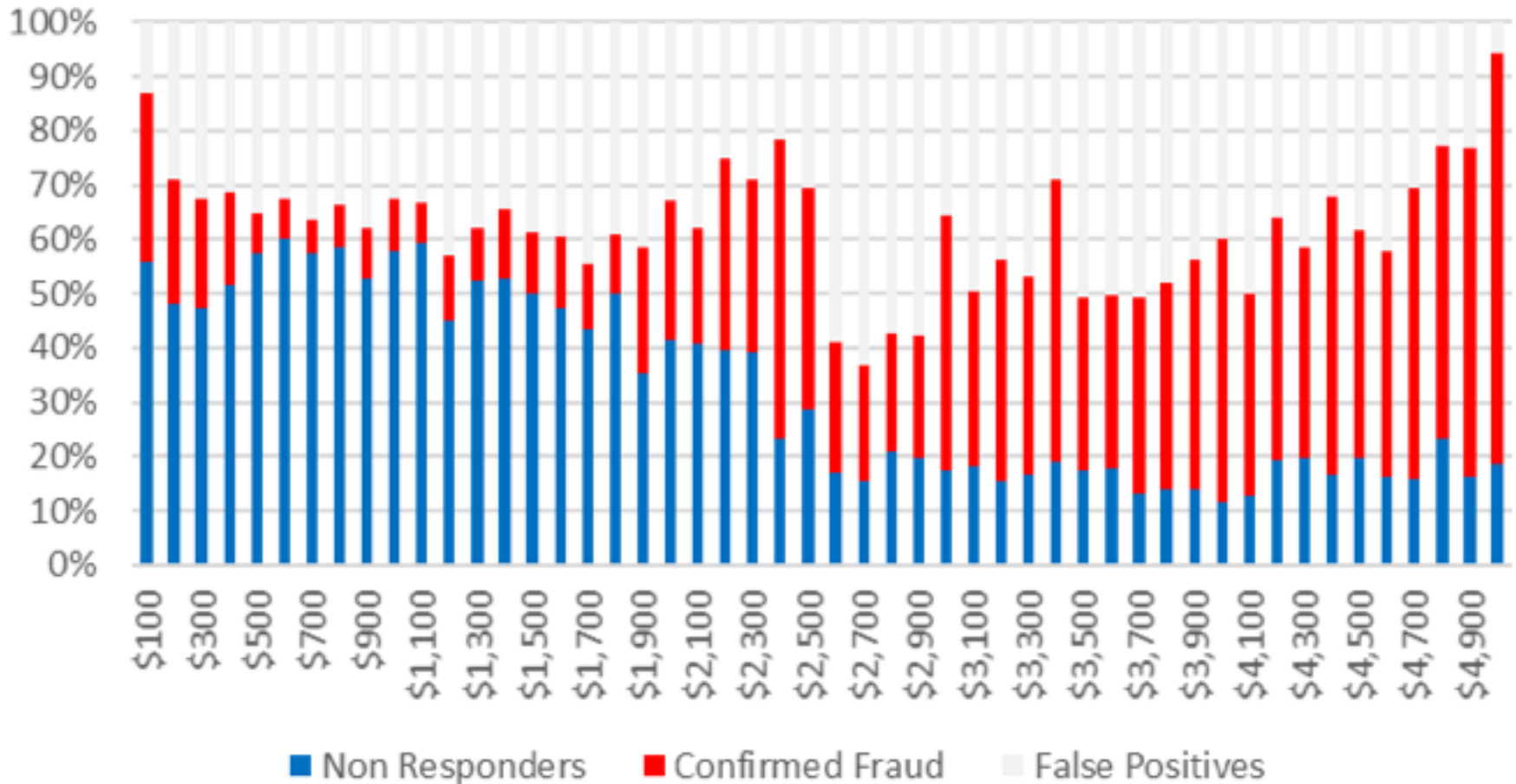
Using the common definition of "fraud"





Separating “fraud” into confirmed fraud vs non-responders

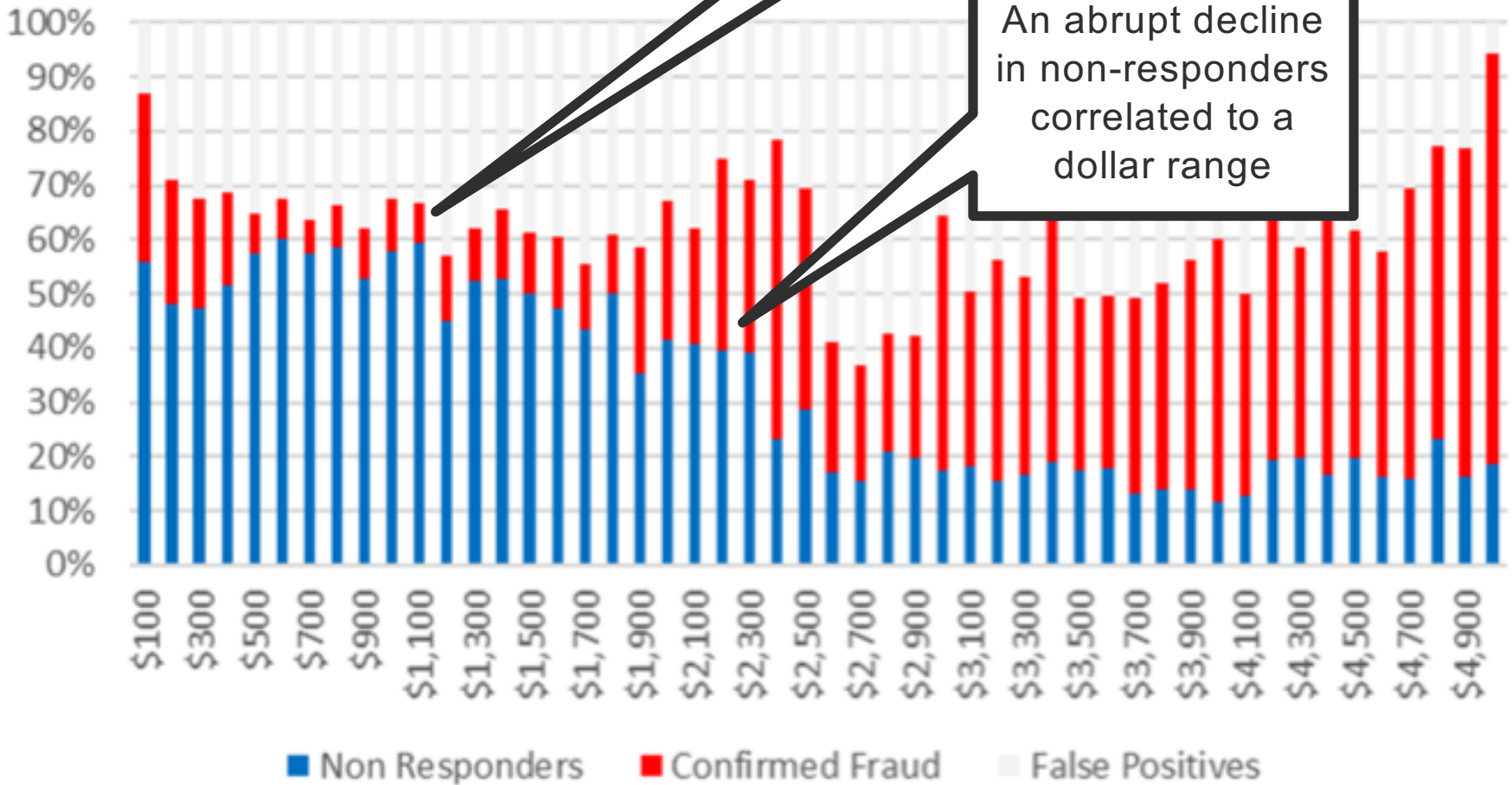
% of Non-Resps, Frauds and False Pos (Dollars by Refund Amount)





Low volume of confirmed frauds in low dollar ranges

% of Non-Resps, Frauds and False Positives (Dollars by Refund Amount)



An abrupt decline in non-responders correlated to a dollar range

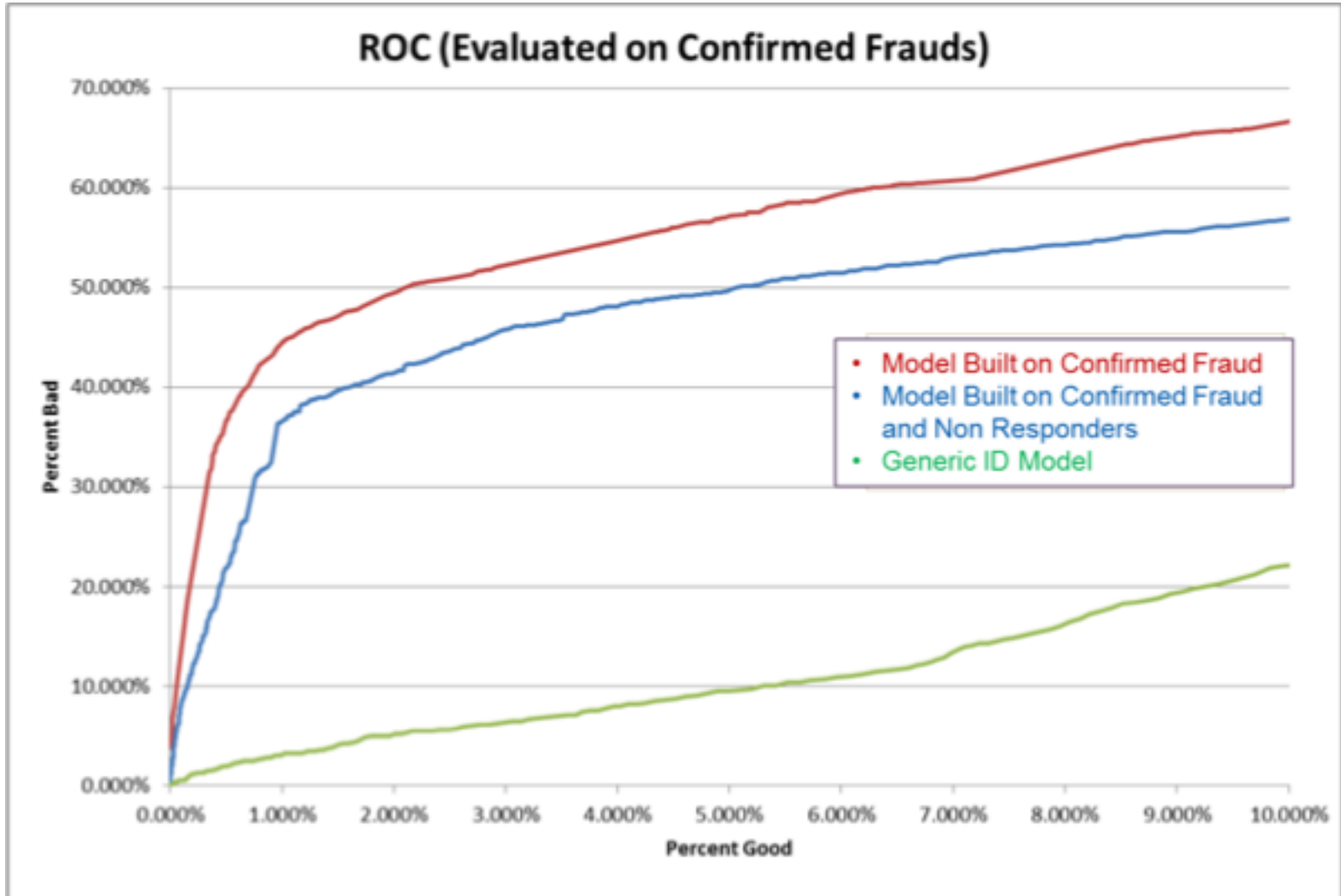


Two possible explanations

1. Notifications sent to low-dollar cases don't reach a "real" taxpayer that contacts the agency to confirm fraud. This seems unlikely.
2. The notifications do reach the "real" taxpayer, who is willing to walk away from the requested refund
 - ▶ These are actual taxpayers using their own identities that choose not to engage with the agency
 - Possible misrepresentation of tax information to increase refund
 - Possible mistrust of the validity of the notification

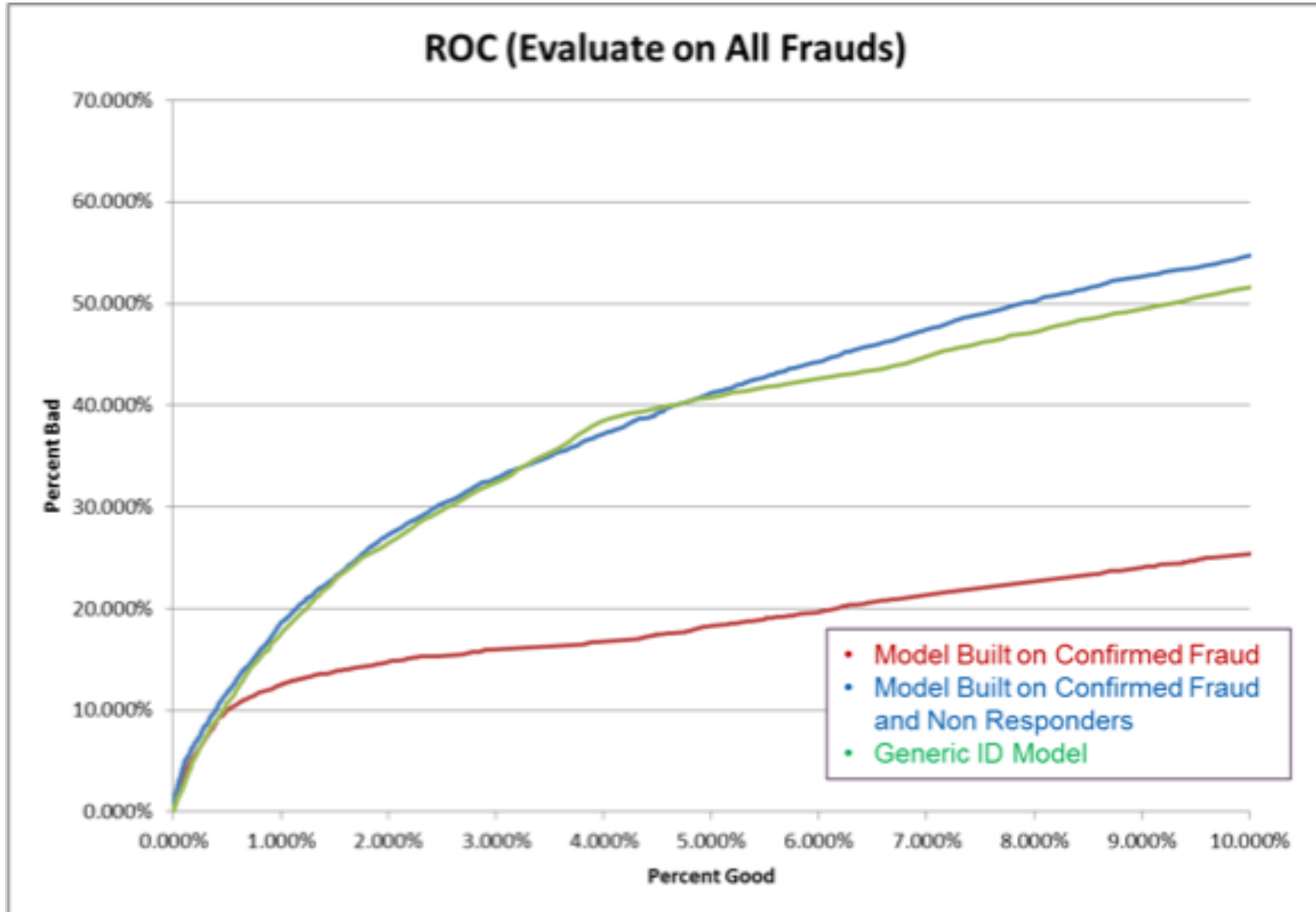


Evidence that non responders may not be fraud





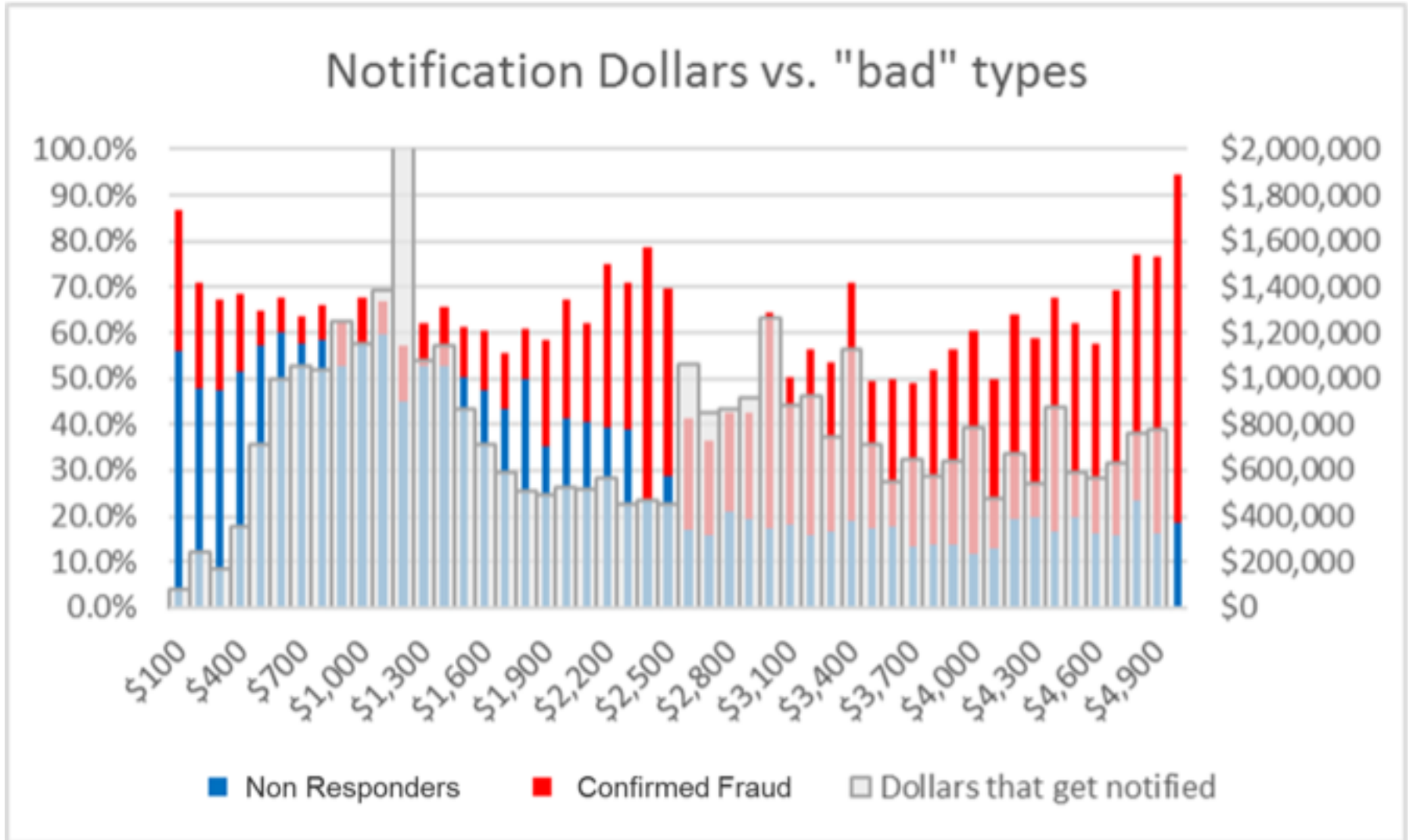
Evidence that non responders may not be fraud (2)





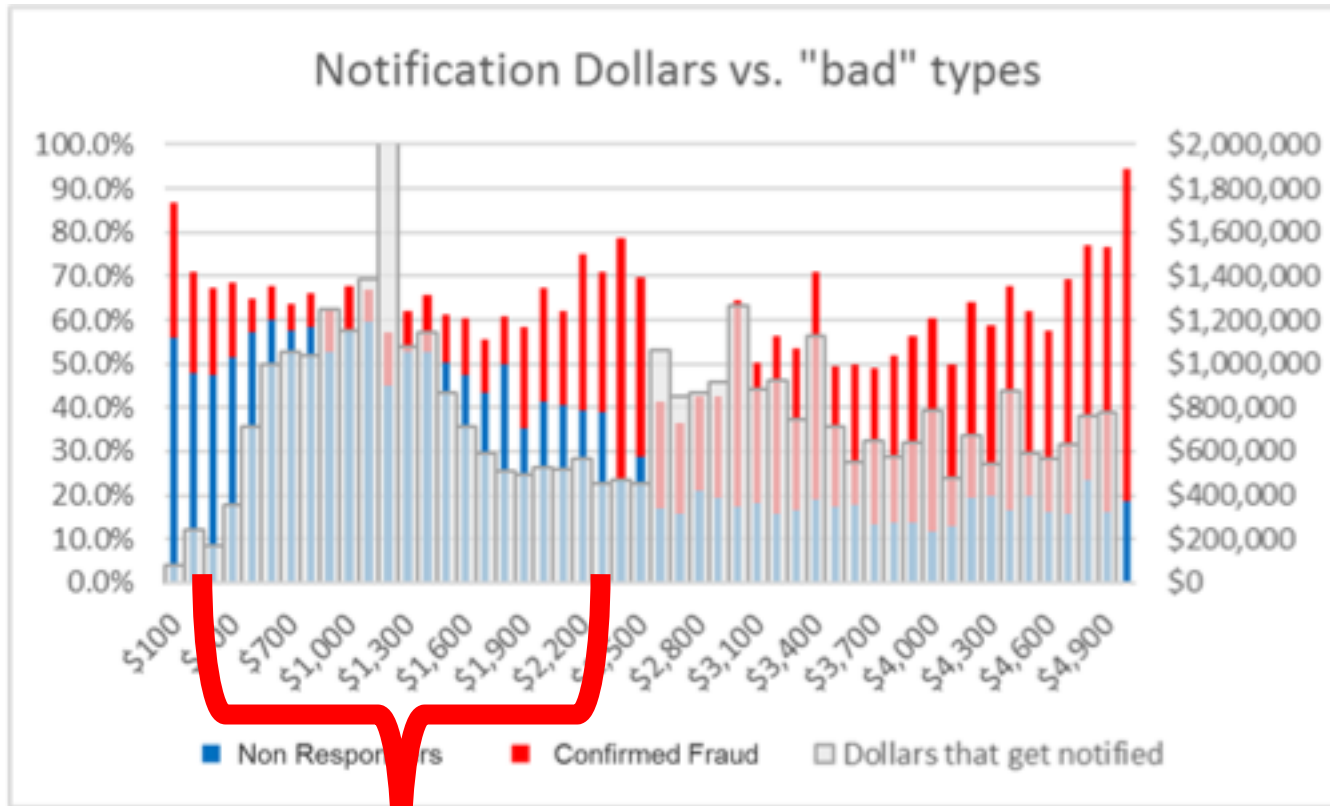
... so where do we focus our effort to stop fraud?

(light gray overlay on right axis shows the total dollar amounts of returns that get a notification for each refund account)





There is significant emphasis on low-dollar refunds where benefit comes from non-responders and not fraud



28% of all dollars associated with a notification occur in dollar ranges (<\$2,200) where non response is very high and confirmed fraud is low



Impacts

- Using the common definition of fraud has two pitfalls
 - ▶ Liability -- Non Responders may surface and verify
 - ▶ Integrity– Based on the volume and dollars, analytics built to find fraud that includes non-responders, will drift away from “confirmed” fraud



A better analytical approach

- Experian advocates the exclusive use of “confirmed” fraud for building analytics that prevent tax refund fraud
 - ▶ Generates lower overall false positives
 - ▶ Less Ambiguity- Better segments results into either confirmed fraud or verified good
 - ▶ Stops the analytics from drifting toward the wrong target

- More details on the analytical approach available



Wrap Up

- If the dollars you are saving come from non-responders, you should be concerned
 - ▶ Evidence indicates a significant number of these are real taxpayers
 - ▶ The dollars to be saved by chasing good taxpayers away from refund requests are simply larger and easier to create than finding confirmed fraud
 - ▶ Over time, the analytics will focus more on generating no response- -leaving ID fraud room and incentive to grow
- Focusing on non responders
 - ▶ May create liability for the agency
 - ▶ Will erode savings over time if/when taxpayers get more comfortable with engaging with the agency
 - ▶ Takes the focus off of confirmed fraud and will corrupt the analytics over time



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