

Opening Statement of Ranking Member Xavier Becerra

Joint Oversight-Social Security Subcommittee Hearing on Identity Theft and Tax Fraud

Committee on Ways and Means

May 8, 2012

(Remarks as Prepared)

The Internal Revenue Service does a lot with a little – processing 140 million tax returns in the span of just a few months, while combating fraud and enforcing our tax laws. Congress needs to do its part, too, by providing adequate resources and enacting legislation that strikes the right balance between efficiently processing returns and preventing fraud.

We are all concerned about tax fraud. Tax fraud increases the burdens on honest taxpayers, undermines compliance with our voluntary tax system and harms the U.S. Treasury.

"When tax fraud takes the form of identity theft, it hurts individual taxpayers more directly – as Mr. Jonathan Agin, a father whose deceased child was the victim of tax identity fraud, so eloquently testified when he appeared before us at the Social Security Subcommittee earlier this year.

The IRS needs both tools and resources to combat fraud. It is not always easy to keep a step

ahead of the fraudsters. We are going to learn today about some of the many creative ways individuals perpetrate tax fraud.

"Unfortunately, budget cuts mean the IRS is struggling just to keep up with its core work. This year, IRS's operating budget is \$305 million less than what it had in 2011, and it has 5,000 fewer employees who can process returns, assist taxpayers, and combat fraud. As a result, the IRS can barely answer the phone calls it receives from taxpayers.

In fact, this spring, the large majority of callers to the special IRS phone line dedicated to assisting taxpayers with identity theft did not get through. For the most recent week measured, 75 percent of callers were unable to get through. And those that did get through waited an hour and 21 minutes on hold before an IRS employee could assist them.

The National Taxpayer Advocate has identified IRS underfunding as the "Number One Most Serious Problem" in her annual report to Congress, concluding that the IRS is "not adequately funded to serve taxpayers and collect taxes."

Combating fraud requires a balancing act. The IRS must balance the time it takes to conduct anti-fraud checks with the statutory requirement to process returns and issue refunds quickly for law-abiding taxpayers. Under current procedures, it takes months for the IRS to receive and process the nearly 250 million W-2 reports and 1.5 billion other third-party reports that are submitted. At the same time, IRS aims to issue refunds within 7-10 day of receiving the return. As a result, the agency does not wait to issue refunds until it is able to cross-check returns against these other reports.

I think we need to figure out a way to do better in the future, but there is no easy answer now on the horizon.

Similarly, the question of the Death Master File – the DMF -- also requires striking the right balance. The Social Security Subcommittee has received testimony over the years about the value of SSA's compilation of the death records it receives from all states into the DMF. The DMF is helpful in administering benefits and in combating fraud, at both government agencies and in the private sector.

At the same time, we know that the widespread availability of SSA's death information means it can also be used by identity fraudsters. We are going to learn more about the challenges of combating identity fraud in the tax world today.

I commend SSA for utilizing its limited statutory authority to restrict death information. SSA recently removed zip code information from the DMF to make it harder for fraudsters to use – and promptly received a Freedom of Information Act (FOIA) request to reinstate it. SSA has also recently removed certain state death records which it determined were not subject to FOIA from the publicly-released DMF, resulting in the removal of over 4 million records from the file.

However, SSA's longstanding legal opinion is that the Privacy Act and the Freedom of Information Act do not allow SSA to keep its death records from the public. As a result, at our last hearing on the DMF and identity fraud, SSA testified that the Administration was evaluating legislative options to restrict release of the DMF. I understand they have made significant progress and I look forward to receiving their legislative proposal.

I look forward to working with the Administration and with my colleagues on both sides of the aisle to move forward with a solution to this problem.

Thank you.