

The following is a script of "The Tax Refund Scam" which aired on Sept. 21, 2014. Steve Kroft is the correspondent. Ira Rosen, producer.

There have been lots of stories over the past few months on identity theft and how the information can be used against you. You may have heard something about stolen identity tax fraud. You may even have been a victim of it. It's the biggest tax scam around now.

This is how it works. Someone steals your identity, files a bogus tax return in your name before you do and collects a refund check from the IRS. It's so simple, you would think it would never work, but it does. It's been around since 2008, and you'd think the IRS would have come up with a way to stop it, it hasn't. Instead the scam has gone viral, tripling in the past three years.

The IRS estimates that it sent out nearly three million fraudulent refunds to con artists last year. And according to a new report from the Government Accountability Office out tomorrow, it cost tax payers \$5.2 billion. The Treasury Department believes the numbers are much higher than that. Proving once again, what every con man already knows: there is no underestimating the general dysfunction and incompetence of government bureaucracy.

Wifredo Ferrer: It's a tsunami of fraud that we have been encountering. The vast number of fraudulent tax returns was something that I don't think the IRS ever really was ready for.

Wilfredo Ferrer is the United States Attorney for the Southern Florida and George Piro is the Agent In Charge of the Miami Field Office of the FBI. Together, they run a federal task force operating at the epicenter of largest tax scam in the country.

Wifredo Ferrer: Florida has been third year in a row on the top. Number one in terms of ID theft complaints. And Miami is also number one in terms of metropolitan areas that suffer from identity fraud.

Steve Kroft: Don't take this the wrong way. Is there any scheme that Miami is not number one at?

Wifredo Ferrer: We have very sophisticated and good criminals, Steve, who know how to, you know, defeat the system.

For decades now, [south Florida has been the Silicon Valley for scam artists](#), drawn here by the weather, the beaches and the opportunity to make lots of money without actually doing much work. There's Medicare fraud, mortgage fraud, securities fraud, and now what the Justice Department calls stolen identity tax refund fraud a tax preparation scheme epitomized by an overabundance of questionable looking establishments that have sprung up here over the past few years. But this scam is so easy, you don't even need an office.

Wifredo Ferrer: For this fraud all you need is a laptop, someone's social security number, date of birth, not even their name. They can do it from their kitchen table. They can do it at a fast-food chain restaurant. Or they can do it on the beach, as long as they have Wi-Fi access.

Actually Corey Williams says you don't even need a laptop, you can file phony returns on your cell phone, if you have the right app. He used to be a legitimate tax preparer until his boss turned him on to the scam. Before he was arrested and sentenced to 40 months in prison, he had made millions and millions of dollars.

Corey Williams: Anybody who knew about it, you'd be a fool to not try to get involved with making some money. I could wake up in the comfort of my own home, and just get on a laptop, do about 15 returns a day. Fifteen times \$3,000 a return, that's \$45,000 a day.

Steve Kroft: So you had a home office?

Corey Williams: Yeah. I would work in my boxers and a t-shirt, yeah.

It as easy as one, two, three. Williams gave us a demonstration. One: you collect or buy a list of stolen identities that are readily available in Miami, if you know the right people. Two: you go to one of dozens of tax preparation sites on line, and using the stolen social security numbers and dates of birth you fill out a completely bogus W-2 form, claiming a modest refund of a few thousand dollars.

[Corey Williams: It has given us a refund of \$4,834.]

Three: you tell the IRS where to send the money, your house, wired to your bank account or loaded onto a prepaid debit card.

Steve Kroft: Do you have any idea how many bogus returns you filled out?

Corey Williams: Has to be like in the thousands.

Steve Kroft: Did the IRS pay all of it?

Corey Williams: On a percentage range, you'd say they would pay out 40 percent of the tax returns.

Steve Kroft: Once you hit sent, how long did it take you to get a check?

Corey Williams: Seven days.

Steve Kroft: Seven days.

Corey Williams: Yes.

Steve Kroft: So you'd send in these returns. And seven days later, you'd get a check?

Corey Williams: Yes.

Steve Kroft: Forty percent of the time?

Corey Williams: Forty percent of the time.

Steve Kroft: Where would you have them send the check?

Corey Williams: You can send the checks to an address, any address. I've seen cases where 25 checks came to one address, and the mailman delivered it.

It sounded so outrageous; we wanted to run it by the federal task force.

Steve Kroft: So you just put down a name and a social security number, and you can make up an employer, or the amount of money that was earned and withheld.

Wifredo Ferrer: That's it.

Steve Kroft: And send it off to the IRS and they'll send you a check back for the refund?

Wifredo Ferrer: They will pay, most of the time. Unless they catch that there's some fraudulent, you know, information. And then it's our job to chase.

Steve Kroft: I'm still amazed that you don't need to provide any documentation when you file your tax return.

George Piro: There are no supporting documents when you are filing electronically. And that's the ease or the convenience that was created for the benefit of the innocent taxpayer, which is now being exploited by criminals.

You would think that the IRS computers would notice that they were sending thousand of checks to a handful of addresses. But they didn't. And you might expect that the IRS would match taxpayer returns with legitimate W-2 forms filed by employers. It doesn't do that either because the law requires refund checks to be sent out within six weeks and employer W-2s are often not available until months later. So if a bogus return is received before a legitimate one, the check will go out to the crooks.

Wifredo Ferrer: The way that you learn that you become a victim of this is when you go and try to file your return the IRS tells you, "Oh, you've already filed." You're like, "No, I haven't." Well, like, "Yes, you have." Well, it wasn't you. It was the fraudster who used your identity to file the return.

And it's not an easy problem to get fixed. Many of the people in this line outside the IRS office in Plantation, Fla., are victims of the fraud, waiting to prove their identity and claim their rightful refund. They will eventually be reimbursed but it can involve massive amounts of paperwork, multiple visits to the office, and months and months of waiting.

Wifredo Ferrer: And this is where I call the sort of the nightmare-ish process, of clearing up your identity. I have seen cases of individuals who have almost lost their businesses because they did not get their refund check in time. I've seen individuals who have almost lost their place in a nursing home because they needed that refund to pay for that year's worth of services. And it's a real shame. A real shame.

Steve Kroft: So, did you know about this before you got this job?

Commissioner Koskinen: I had no idea about this before I started getting briefed last fall.

John Koskinen is the Commissioner of the IRS, its fourth commissioner in just two years. Its become a high turnover position in part because the agency has been beset by a number of embarrassing problems, including stolen identity tax fraud, that have led people to question its competency.

Steve Kroft: I mean it looks to me like the IRS got really outsmarted by some people who were not all that bright, were not that ingenious.

Commissioner Koskinen: What happened was a lot of people discovered that, a: social security numbers are either easy to steal or find or buy. And then, b: you can file a false return.

Steve Kroft: Why didn't anybody anticipate that?

Commissioner Koskinen: Well, I think it goes back to the fact that people don't anticipate social security numbers were going be so readily available. The assumption was, until very recently, was a part of your

identity that you protected and took great care of so that no one actually expected those would be this easy to get a hold of.

But there were plenty of warnings. The Senate Finance Committee held hearings on stolen identity refund fraud way back in 2009 when then-IRS Commissioner Douglas Shulman testified.

Douglas Shulman: I discussed the issue of identity theft with the senior leaders of the IRS my first day on the job.

There were more hearings in 2011 and another in 2012 with deputy IRS Commissioner Steve Miller.

Steve Miller: We cannot stop all identity theft, however we are better than we were and we will get better still.

In those ensuing years, the number of cases of stolen identity refund fraud has risen from 51,000 to nearly three million.

Wifredo Ferrer: In the year 2012, the Department of Treasury's inspector general predicted that by the year 2016, IRS will be hemorrhaging, and losing \$21 billion due to this type of fraud.

Steve Kroft: It's only 2014. Don't you think something can be done in the next two years to fix this?

Wifredo Ferrer: Well, that is my hope.

But it will not be easy. The entire IRS system uses social security numbers as its primary means of identifying taxpayers. Even though they are now ubiquitous in public, private and corporate files just waiting to be stolen by thieves.

Wifredo Ferrer: The key to this is to have somebody in the inside, or someone who has access to our social security numbers, to our date of births. And a lot of these individuals are insiders in big institutions. In banks, hospitals, schools, clinics.

Corey Williams: We would approach anyone who worked at like a dental office, anybody who worked in a medical field. You would just approach them and tell them, if they get you 100 names, you would give them \$1,000.

Steve Kroft: These people easy to find in Miami?

Corey Williams: Very easy. Very easy.

Steve Kroft: Because you would think if you went in and started knocking doors, and asking people that worked as hospitals, and doctors' offices, and dentists' office, somebody would call the cops.

Corey Williams: No, they needed the money more than they wanted to call the cops. Everybody was with it. Everybody was with the scam.

Steve Kroft: Was this like a community of people doing this?

Corey Williams: More like a nation of people doing this.

It's gone from hundreds of people filing hundreds of fraudulent returns to thousands of people filing millions of fraudulent returns and its become much more organized. U.S. Attorney Ferrer says some people are even setting up franchises.

Wifredo Ferrer: We have had defendants, master-minds of these schemes, engage in filing parties. And what they do is that they invite their friends to a hotel room or to an apartment, and then they tell them how to do it in return for a cut of these tax returns.

Steve Kroft: You make it sound like Amway or Tupperware.

Wifredo Ferrer: That's what we've seen.

Even Ferrer's own boss, U.S. Attorney General Eric Holder, has had his identity stolen in an IRS refund scam. And a number of members of the task force have been victimized, including North Miami Beach Police Officer Rocky Festa, who says local police departments have been hit hard.

George "Rocky" Festa: Aventura had nearly their entire department, which was 50-some-odd officers got hit. Davie Fire and Davie Police, it was in the hundreds. They were all victims of tax return fraud.

Festa and his partner Craig Caitlin now work exclusively on tax refund cases and were among the first to discover the breadth of the scam five years ago, when they began finding tax documents and stacks of pre-paid debit cards when they pulled over suspicious vehicles.

[Craig Caitlin: Here is a wire plastic with a card.]

You can get one of these prepaid debit cards almost anywhere, usually without providing identification. You then deposit and withdraw money from it as needed. It's like a bank account for people who don't have one.

Steve Kroft: Now is that a Visa? A real Visa card?

Craig Caitlin: It's a real Visa card and you can buy.

Steve Kroft: So you can go in a convenience store and buy a Visa card?

Craig Caitlin: Right off the shelf.

If you want, the IRS will electronically deposit tax refunds directly onto these cards no questions asked, eliminating the need for crooks to ever actually set foot inside a bank or try to cash a refund check. They can spend the money in stores, or withdraw it from ATMs.

Steve Kroft: So is this kind of like a throwaway phone?

Craig Caitlin: Yes, sir. Yeah, once the money goes on the card, you empty the money off on ATMs and you put the card in the garbage. It's pretty good.

The prepaid cards are now used by millions of Americans to collect \$142 billion in government entitlements like Social Security and Medicare payments. IRS Commissioner Koskinen thinks it's an invitation to commit fraud.

Commissioner Koskinen: The prepaid cards are the currency of criminals. Our problem is you can't distinguish the number of a prepaid card from a legitimate bank account.

Steve Kroft: Almost impossible to trace, right?

Commissioner Koskinen: It is almost impossible to trace.

Steve Kroft: Why doesn't somebody put an end to that?

Commissioner Koskinen: There are significant percent of the population that were "unbanked" as it were called. If you don't allow them to use a prepaid card, they are going to have to get a check and they'll have to pay someone a lot of money to cash that check. So you are disadvantaging a significant amount of the population.

Steve Kroft: And empowering a criminal network?

Commissioner Koskinen: And you are empowering a criminal network.

Five years into the scam, the IRS still cannot tell if the person filing the return and claiming the refund is actually the real taxpayer. By comparison, the credit card companies are much better at flagging suspicious charges before they are paid out.

Steve Kroft: Credit card companies don't have that much of a problem with this. Why can't the IRS do that?

Commissioner Koskinen: So that's the direction in which we're going. It's a significant move into what I call the 21st century. We're still kind of in the late 1900s. But this is it's still a big problem that, while we are making great progress, we've got a lot of work to do.

IRS Commissioner Koskinen says the agency does catch a lot of the fraud, but the enforcement efforts have been hampered by cuts to its budget.

A number of fixes are under consideration, some of them obvious, including delaying the payment of refund checks until they can be matched up with W-2 forms filed by employers.

The House passed legislation recently increasing the penalties for tax refund fraud and the Senate Finance Committee has scheduled yet another round of hearings.