

United States Senate

WASHINGTON, DC 20510-4304

August 8, 2012

The Honorable Douglas H. Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20230

Dear Commissioner Shulman:

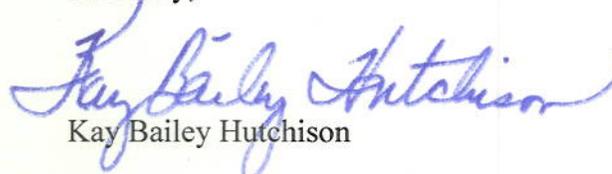
The Treasury Inspector General for Tax Administration (TIGTA) released a report identifying significant fraud within the Individual Taxpayer Identification Number (ITIN) program. This investigation was undertaken after I submitted an objective referral to TIGTA on March 23, 2011, based on a constituent complaint that I received. I strongly recommend that the Internal Revenue Service (IRS) promptly adopt all of the Inspector General's recommendations. Most importantly, I respectfully request a written response detailing how IRS will implement each recommendation by September 10, 2012, in order for the IRS to accurately detect and eliminate fraudulent applications and tax returns – especially before the next tax filing season.

The report outlines the lack of accountability and amount of tax refunds being issued to fraudulent ITIN applications. TIGTA reported that for Processing Year 2011, 2.9 million ITIN tax returns were processed and \$6.8 billion in tax refunds were issued. Of the ITIN tax returns dispersed, \$43 million in returns were issued to fraudulent applications. In addition to the erroneous tax refunds, TIGTA found IRS management of the ITIN program had created an atmosphere that discourages employees from detecting the fraudulent applications. It is deeply troubling that management was found to have focused more on the speed and volume in which applications were processed rather than in the legitimacy of the applications.

The investigation found that ITIN program employees received insufficient training in detecting fraudulent applications, IRS did not require certifiable documentation to issue ITINs, and processes to investigate fraud were discontinued in 2010. As a result, TIGTA estimated thousands of fraudulent ITIN tax returns with erroneous tax refunds totaled more than \$43 million” in 2009 alone.

I hope that you will quickly institute procedural changes that will focus on eliminating fraudulent ITINs and that you will encourage IRS employees to identify and report potential for fraud.

Sincerely,



Kay Bailey Hutchison