



Tax Fraud and Information Sharing

***Report to the Revenue and Transportation Interim
Committee***

February 19, 2014

Tax Fraud

Tax fraud activity, including identity theft, is one of the fastest growing crimes in the country.

What is and is not Tax Fraud?

- **Tax avoidance** is the legal use of tax laws to one's advantage to avoid paying taxes
- **Tax evasion** is the illegal evasion of taxes – intentionally paying less than one owes
- **Tax fraud** is a deception deliberately practiced in order to secure unlawful gain

Examples of Income Tax Evasion and Tax Fraud

- Intentionally failing to report all income received
- Claiming to be a resident of another state while residing in Montana
- Purposely not filing state income tax returns
- Using questionable tax preparers
- Structuring business for the sole purpose to evade tax
- Preparing documents, books, and records that understate income or overstate expenses
- ***Making false or fraudulent claims for refunds***

Fraudulent Claims for Refunds

Fraudulent returns includes:

- Fraudulently filed refund requests using fictitious information and stolen identities

Example of Fraud Scheme:

➤ Hospital Scheme

- Appears to originate from either hackers that have gained access to hospital records or dubious medical billers have sold identification information. This “stolen” information is used to file income tax returns.

IRS Identity Theft Conviction Example

Florida Resident Sentenced for Aggravated Identity Theft

On September 23, 2013, Abdul Cunningham, of Rockledge, FL, was sentenced to 144 months in prison, ordered to pay \$560,731 in restitution and a money judgment of \$560,731. Cunningham pleaded guilty on June 13, 2013 to wire fraud and aggravated identity theft. A co-defendant, Jana Harris-Cunningham, pleaded guilty on June 24, 2013 and is awaiting sentencing. According to court documents, the defendants engaged in a scheme to defraud the United States Treasury by filing fraudulent income tax returns and negotiating fraudulent tax refunds using stolen identities. Cunningham and Harris-Cunningham filed 145 false claims with the IRS for tax years 2010 and 2011. **As part of their scheme, both used the stolen identities along with false and fraudulent wage and tax withholding information to prepare fraudulent federal income tax returns.** After filing the false returns, Cunningham and Harris-Cunningham accepted and negotiated reloadable debit cards that they knew contained fraudulently obtained income tax refunds.

Individual Income Tax Fraud

Federal

Growing problem nationwide

IRS – Fraudulent filed refunds stopped

- 2011 – \$14 billion
- 2012 – \$20 billion
- 2013 (through November) - \$16 billion



Individual Income Tax Fraud

Other States

State	2010		2011		2012	
	Number of Fraud Returns	Amount Prevented from being Refunded	Number of Fraud Returns	Amount Prevented from being Refunded	Number of Fraud Returns	Amount Prevented from being Refunded
Arizona	7,542	\$3,194,000	15,320	\$10,913,000	44,487	\$31,824,000
Arkansas	1,380	\$1,226,000	1,202	\$925,000	1,514	\$1,555,000
Georgia	109,884	\$71,600,000	162,427	\$117,000,000	106,949	\$53,800,000
Louisiana	-	\$2,300,000	-	\$3,400,000	-	\$10,400,000
Maryland	5,094	\$10,383,000	8,917	\$51,319,000	11,708	\$18,548,000
Oregon	-	\$882,000	-	\$4,831,000	-	\$5,555,000
Pennsylvania	1,474	\$1,443,000	752	\$933,000	3,317	\$2,449,000
Utah	169	\$912,000	173	\$329,000	464	\$681,000

Individual Income Tax Fraud

Montana			
Tax Year	Number of Fraud Returns	Amount Prevented from being Refunded	Average per Return
2009	64	\$77,000	\$1,203
2010	185	\$100,000	\$541
2011	142	\$227,000	\$1,599
2012	979	\$783,000	\$800
2013 (to date)	39	\$81,000	\$2,077

Efforts to Combat Tax Fraud

➤ System Edits

- Built in GenTax system edits to identify potential fraudulent returns
- Manual identification

➤ Information Review and Sharing

- Review of Taxpayer Filed Information: Review historical filed information
- Information Sharing: The Department is authorized by law to exchange certain information with other state agencies, other states, and the IRS

Information Sharing Among States

- Federation of Tax Administrators Suspicious Filer Program
 - States exchange fraud schemes and information. This exchange assists the states in “flagging” the information in each states’ tax system. The exchange of information occurs in a secure environment.
 - There are 41 participating states

- Data Exchange Program (DEX)
 - The states that use GenTax as their tax system, exchange fraud information in an electronic, automatic and secure environment
 - There are 13 participating states

- IRS/States Collaboration Program in Development

Information Sharing with Other State Agencies

- Sharing of Information Agreements
 - State law authorizes the Department of Revenue and Other State Agencies to share information
 - Agencies include:
 - Attorney General and Department of Justice
 - Board of Regents
 - Commissioner of Insurance
 - Department of Justice
 - Department of Labor and Industry
 - Department of Transportation
 - Department of Public Health and Human Services
 - Fish, Wildlife and Parks
 - State Fund

Department of Revenue and Fish, Wildlife and Parks

State law authorizes the Department of Revenue and Fish, Wildlife, and Parks (FWP) to share information

- §2-7-105, MCA
 - *It shall be the duty of all public officers of the state and of any municipality to give to the department of revenue information in their possession relating to taxation when required by the department and cooperate with and aid the department in every manner in its efforts to secure fair, equitable, and just enforcement of the taxation and revenue laws of the state.*
- §15-30-2618 (9)(d), MCA
 - *(9) On written request to the director or a designee of the director, the department shall furnish:*
 - *(d) to the department of fish, wildlife, and parks specific information that is available from income tax returns and required under 87-2-102 to establish the residency requirements of an applicant for hunting and fishing licenses;*

Information Shared

- Department of Revenue Information Shared with FWP:
 - Name, address, residency status, part-year residency location and part-year date of move as identified on the state tax returns

- FWP Information Shared with Department of Revenue:
 - Name, address, license number, and residency status claimed on the license application

- The agencies cross-match the other agency's data with their own to determine if individuals are claiming the same residency status.

Results of Department and FWP Information Exchange

Department of Revenue:

Year	Number of Assessments	Dollar Amount of Assessments	Average per Assessment
2008	38	\$ 302,354	\$ 7,957
2009	34	\$ 200,509	\$ 5,897
2010	45	\$ 601,312	\$ 13,362
2011	29	\$ 331,781	\$ 11,441
2012	23	\$ 222,007	\$ 9,652



Results of Department and FWP Information Exchange

FWP:

Year	Number of Violations	Dollar Amount of Violations	Average per Violation
2008	381	\$ 75,751	\$ 199
2009	386	\$ 79,722	\$ 207
2010	198	\$ 36,736	\$ 186
2011	127	\$ 17,845	\$ 141
2012	32	\$ 2,865	\$ 90



FWP Conviction



- Former Detroit Lions football player Mark Grabowski who owned property in Cameron, MT.
- Committed license fraud for 10 years using 2 separate Montana driver's licenses.
- Convicted of 28 charges of license fraud and 7 counts of unlawful possession.

FWP Conviction

2004 The Ruth Case, Missoula County
At least 41 Illegal animals

*"You're not even a slob hunter. You're simply a
killer of wildlife."*

-Missoula District Judge John Henson



Unlawful use of resident licenses results in 20-year prison sentence, a total of \$19,300 fines and restitution and loss of hunting privileges for life.