

**Identity Theft Tax Refund Fraud Information
Sharing and Analysis Center**

2020 Annual Report

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Executive Summary

Marking a momentous year in 2020, the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC) took a major step forward toward the goal of serving as a catalyst for detecting and disrupting sophisticated fraud schemes and enhancing protections for the nation’s taxpayers. In just four years, this complex project has moved from a pilot program to a high-functioning partnership with members rapidly sharing information for immediate action. In April of 2020, for the first time specified ISAC participants received from the IRS, through the Taxpayer First Act (TFA) data sharing provisions, specified return information, representing actionable data and information with respect to identity theft tax refund fraud.

The successful implementation of the TFA included developing and securing key agreements between eligible industry members, state partners, the Trusted Third Party (TTP) and the Internal Revenue Service (IRS); the TTP’s deployment of an additional separate secure “enclave” for storing and sharing specified return information; the establishment of TTP procedures for intake and reporting on this data; and training ISAC members on how to access and use this new information.

ISAC Mission

The mission of the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center is to provide a secure platform via a sustainable public/private partnership, to facilitate information sharing consistent with applicable law, and analytics necessary to detect, prevent, and deter activities related to stolen identity refund fraud.

ISAC Vision

Our vision, as a public/private partnership, is a tax ecosystem where taxpayers can confidently file their taxes safely and securely.

The ISAC Senior Executive Board (SEB) approved a supplemental objective to the partnership’s annual strategic plan that strengthens partners identity theft defenses by accessing, using and sharing results of new TFA data within the secure ISAC environment. The goals of this supplemental objective are:

- Establish a secure, trusted environment to house and share specified return information with specified ISAC participants
- Expand opportunities for partners to access, analyze and share feedback on initial data provided by the TFA
- Provide secure tools for partners to share identity theft results based on TFA data

During 2020, the ISAC also implemented new functionality for states and financial services companies related to deposit verification. This activity, launched by the IRS Security Summit in 2015, now offers the IRS and state ISAC members the ability to benefit from ISAC analysis on data shared by financial services companies related to deposit verification activities pre refund. Using this data, members can identify fraudulent claims for refunds and stop and/or return funds to the federal and state governments.

Over the past year ISAC membership trust grew to an all-time high as partners shared over 240 significant threats/alerts during the filing season. A mid-filing season survey of members found 90 percent of respondents changed their internal fraud filters or took direct action as a result of ISAC data.

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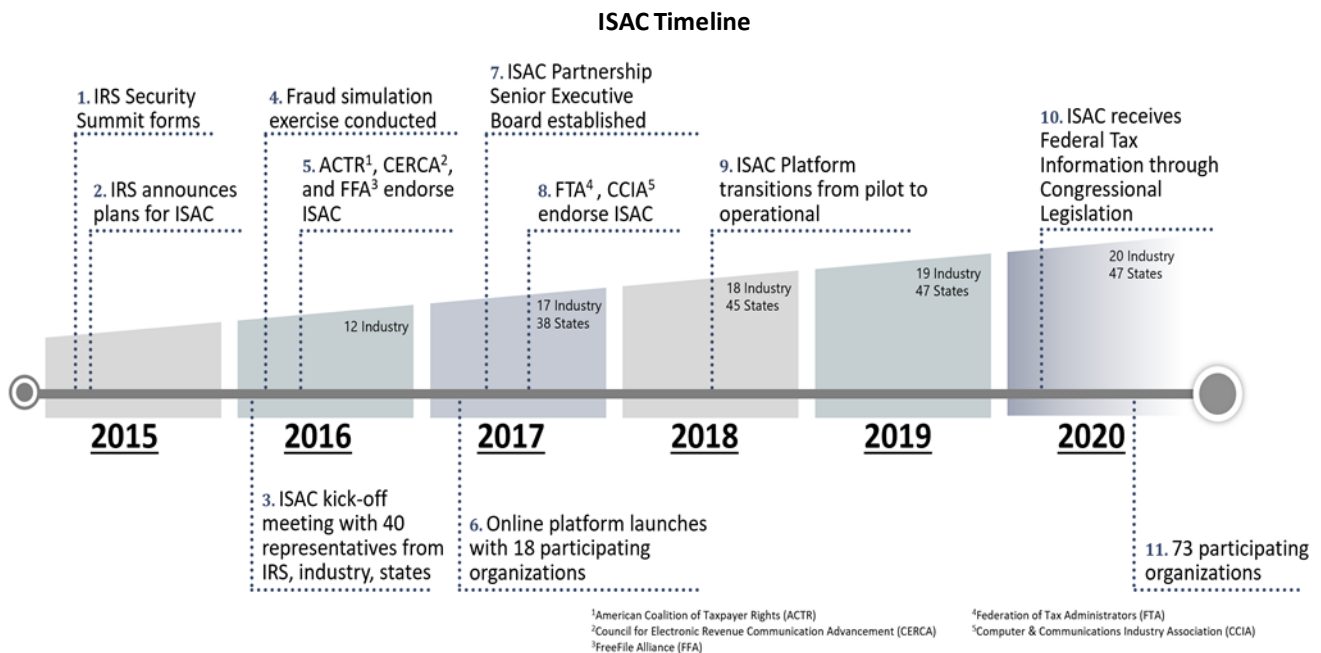
Our History

The IRS Security Summit

In March 2015, the IRS convened a public-private partnership to respond to the growing threat of tax identity theft and stolen identity refund fraud. This group, called the IRS Security Summit, is made up of IRS officials, state tax administrators, and leading tax preparation firms, software developers, payroll and tax financial product processors, financial institutions, and tax professionals. The Security Summit’s activities have improved safeguards in the tax return submission process, keeping false returns out of the system, improving internal fraud filters, and preventing fraudulent refunds from being paid out. In 2016, Security Summit partners agreed there was a need for a formal public-private partnership where sharing could take place in a collaborative environment based on partner-agreed rules.

Formation of the IDTTRF-ISAC: The Platform and the Partnership

In January 2017, the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (the IDTTRF-ISAC or simply, the ISAC) was formed, governed in equal partnership among the IRS, private sector tax industry (industry), and states. The ISAC consists of two components: the platform and the partnership. The platform is operated under the direction of the IRS, through its Federally Funded Research and Development Center (FFRDC). The FFRDC serves as the ISAC’s Trusted Third Party (TTP). TTPs are critical in ISACs, in that they facilitate information sharing among entities that wouldn’t otherwise do so. The platform serves as the centralized information-sharing vehicle for the ISAC and includes controls to help ensure that sharing occurs in a manner that is consistent with applicable laws.



In 2020 with the ISAC’s 73 participating organizations, the benefits of collaboration are evident. Users shared information ranging from specific schemes to suspicious activity, and immediately adjusted fraud filters or took actions to proactively address identity theft tax refund fraud.

The Risk Environment

The prevalence of data breaches and account takeovers across the country means that taxpayer information is available to criminals in increasing volumes. The criminal tax return often looks identical to

the real taxpayers return. To eliminate identity theft tax refund fraud entirely, the IRS and state departments of revenue would need to wait until all returns are filed and analyzed before issuing refunds.

Since many taxpayers depend on their tax refunds as a source of forced savings, timeliness is critical. To minimize the risk of issuing fraudulent returns while at the same time addressing the need for timely refunds, the IRS and state departments of revenue use analytics and multiple data sources, including the ISAC, to identify as much fraud as possible before sending refunds.

The threat remains high as evidenced in external reports that since June 2020, at least 16 billion records, including credit card numbers, home addresses, phone numbers and other highly sensitive information have been exposed through data breaches. The first quarter of 2020 was one of the worst in data breach history, with over 8 billion records exposed.¹

“FTA is proud to be an active and engaged endorsing organization of the ISAC since the development and formation of this platform. The members of FTA are deeply committed to the protection of all taxpayers against Identity Theft Tax Refund Fraud and are dedicated to making contributions that enable all of the ISAC partners to be successful in our combined efforts to combat criminals. The ISAC provides an ideal platform to allow the sharing of information and interaction with our industry and IRS partners, and we appreciate all the hard work of those who helped create it and those who work hard on a daily basis to maintain and innovate the platform.”

*Gale Garriott
Executive
Director
Federation of Tax
Administrators*

“ACTR and its members played a critical role in the formation, establishment and operation of the ISAC over the past five years. We are rightfully proud that this collaborative effort between private industry, IRS and the states will continue to contribute to the dramatic reduction in the incidence of identity theft tax refund fraud.”

*Steve Ryan
General Counsel
American Coalition
for Taxpayer Rights*

“CERCA has been honored to be one of the endorsing organizations participating and contributing to the ISAC for the betterment of the American taxpayers. In a filing season unlike any other – due to the COVID pandemic – this public-private partnership was a critical defense mechanism against the emerging schemes of cyber criminals. The trust, communication and collaboration that has been built over the past four years provided a strong foundation for sharing information and responding to new threats quickly.”

*Geno Salo
Chair, Council for
Electronic Revenue
Communication
Advancement*

¹ selfkey.org/data-breaches

Year in Review

Legislation

The Taxpayer First Act (TFA) of 2019 authorized the IRS to share specific return information with specified industry participants of the ISAC. States receive the specified return information under existing agreements with the IRS. In accordance with Section 2003 of the TFA, to obtain the information, specified ISAC participants must have signed an ISAC Participant’s Agreement, must be party to a separate agreement with the IRS, and meet the prescribed security/data protection and incident reporting requirements. They are also required by the IRS to undergo awareness training regarding the access and protection of the information. Thirty-five of the eligible thirty-seven organizations have accounts in the ISAC secure TFA enclave. (Financial Services Companies and Endorsing Organization are not eligible to receive TFA data).

To memorialize the IRS’s authority to share specified return information with the ISAC (Trusted Third Party and specified ISAC Participants), for the purpose of the detection and prevention of identity theft tax refund fraud, validation of taxpayer identity and cybersecurity threats an addendum to the ISAC Participant Agreement was issued by the TTP to all ISAC Participants.



The ISAC created an additional separate, secure environment to receive and store the new specified return information. The existing ISAC environment continues to operate as ‘business as usual’ for all ISAC partners.

Since April 2020, when partners began receiving TFA specified return information, IRS has shared over 1.3 million records with the ISAC. These records include Potential Individual Identity Theft, Annual Confirmed Individual Identity Theft and Cumulative Confirmed Individual Identity

Theft. The TFA records were enriched by the ISAC and posted as reports that were accessed by authorized partners over 700 times through September of 2020.

“The Security Summit marked its fifth anniversary this year, and there’s not a more fitting symbol of this successful Public-Private partnership than the ISAC and its ongoing achievements. In a brief period, the ISAC has moved from pilot to being a powerful defender in the fight against tax refund fraud. It’s successful because of the trust between the IRS, the states and the private sector. Trust can’t be legislated; it must be earned. The Security Summit has made much progress against cybercriminals in the past five years, but one of its lasting legacies will be the ISAC.”

*Chuck Rettig
Commissioner, Internal Revenue Service*

Strategic Plan

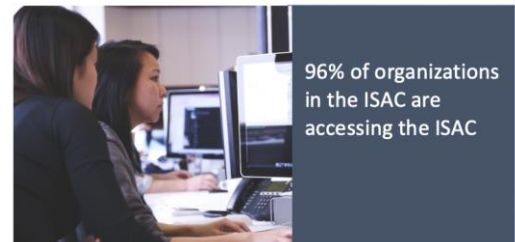
The SEB approved a supplemental objective to the 2019-2021 strategic plan that strengthens partners' identity theft defenses by enabling the access, use, and sharing results of new TFA data within the secure ISAC environment.

Goals related to the new strategic objective include:

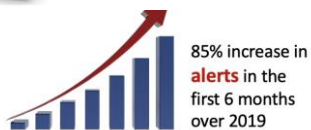
- Establish a secure, trusted environment to house and share TFA data with authorized partners.
- Expand opportunities for partners to access, analyze and share feedback on initial data provided by the TFA.
- Provide secure tools for partners to share identity theft results based on TFA data.

Metrics

The Partnership's metrics are designed to measure activities within its purview. It is important to note that the ISAC does not measure amounts of identity theft tax refund fraud stopped. Ownership of these measures resides with the IRS and the state departments of revenue. Furthermore, because detection of identity theft tax refund fraud requires an accumulation of data, the ISAC data is a key piece in the fraud puzzle, but often not the only piece necessary to make a final determination. Therefore, typical "but for" measurement methodologies underestimate the impact of ISAC data.



The ISAC currently measures its work in three categories:



- Levels of industry, state and IRS participation in the ISAC;
- Volume and quality of alert and information contributions that identify ecosystem threats; and



- Volume and quality of the ISAC's data analysis in identifying suspected identity theft tax refund fraud.

ISAC Users in Their Own Words

"The idea of looking to other organizations that are working in parallel to us and trying to learn from them is very valuable."

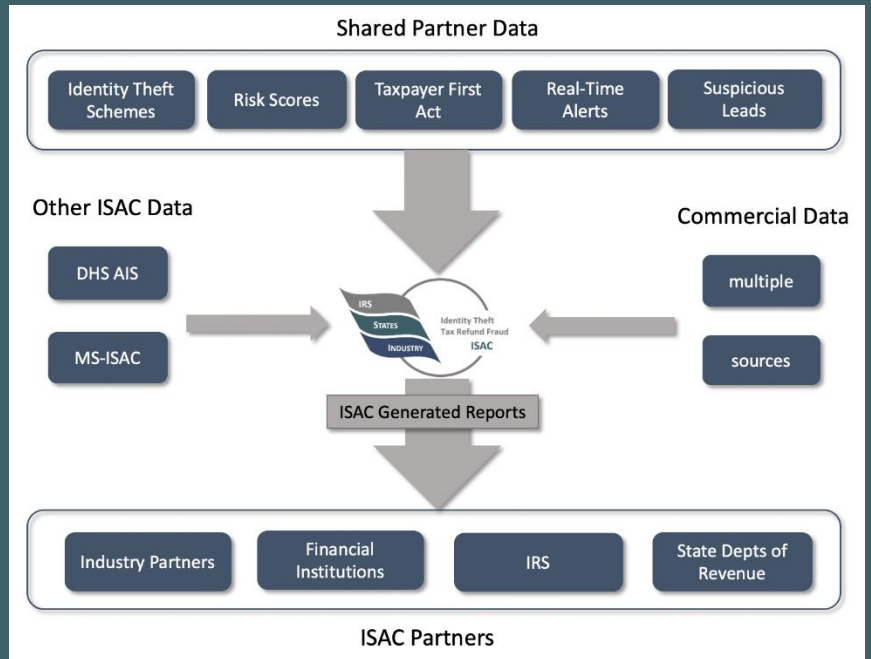
"Review of the alerts has helped us identify trends, take internal action on hundreds of accounts, enriched our internal controls and allowed us to share back to the ISAC."

"The more people participating in the ISAC and using the data, the more fraud is being stopped."

How the ISAC works with data

The Trusted Third Party (TTP):

- Receives and analyzes data from ISAC participants and other sources.
- Provides anonymized, aggregated reports and visualizations that help members to better detect and stop identity theft refund fraud.
- Offers a secure platform to help users quickly find and share significant data anomalies.
- Supports users to help maximize the benefits of ISAC tools and analytic products.
- Conducts tailored training for analysts and executives.



ISAC Collaboration Results

The Partnership defined ISAC engagement in their 2019-2021 Strategic Plan to include contributing data, participating in committees and pilots, and providing feedback.



65% of ISAC participating organizations attended the 2019 ACoP Fall Face-to-Face

Over 100 fraud analysts participated in the fourth annual Face-to-Face Analysts Community of Practice. They shared best practices and participated in data exercises, and a developed deeper understanding of each sectors (IRS, states, and industry) data needs and activities. These analysts are the true backbone of the ISAC.

New to the ISAC this year was the ability to create an ‘alert story,’ showing the linkage of patterns and other key data. The largest alerts scheme this year included 119 alerts shared by partners – identifying a threat to nearly every state as well as the IRS.



ISAC Users in Their Own Words

“We leverage the reports to see any connections missed to current fraud schemes we are tracking and make connections that allow us to expand what we know are associated and new IDT.”

“After the ACoP conference, I began a control sheet. We log and track the Alerts, data points, hits, etc. This allows us better tracking and the ability to re-visit alerts at later times.”

Leadership

The Partnership's SEB and its committees have equal representation and includes 15 senior level representatives (five each from the IRS, states, and industry).

The SEB:

- Provides guidance in strategic areas, including recommending operating procedures for the ISAC, membership criteria, vision and mission.
- Communicates with IRS leadership, state revenue agencies and private sector tax organizations.
- Develops and approves procedures, activities and communications by Partnership Committees to other parties.
- Shares topics for study and analysis and reviewing results of analyses submitted by the TTP.

Senior Executive Board Co-Chairs

Each sector – IRS, states, and industry – selects a SEB Co-chair to provide sector leadership and communication.

- Michael C. Beebe, IRS Co-chair; Director, Return Integrity & Compliance Services, Wage & Investment Division, Internal Revenue Service
- Sharonne Bonardi, State Co-chair; Deputy Comptroller, State of Maryland
- Kathy Pickering, Industry Co-chair; Chief Tax Officer, H&R Block, Inc.

Glossary of Important Terms



Alerts are issued by members within the ISAC’s secure environment to report any tax ecosystem threats. This is like a neighborhood listserv for the tax ecosystem, with immediate reports of breaches, compromised identification numbers, or other suspect data.



Leads identify refund fraud patterns, suspicious activity, and suspected fraud. Industry participants are required to submit secure “lead reports” to the IRS and states. The TTP aggregates and anonymizes the leads so that industry can work collaboratively with the IRS and states to bolster fraud detection and prevention. The tax ecosystem is only as strong as the weakest link in the system. Leads provide a comprehensive view of cyber threats across the ecosystem to help identify vulnerabilities and emerging cyber threats.



The **Taxpayer First Act (TFA)**, Section 2003, defines the requirements needed for an IRC7216 ISAC participant to receive specified return information, including the written agreement with IRS detailing data protection and Safeguards. It also defines the specified return information data elements that can be shared in the ISAC.



The **Analysts’ Community of Practice (ACoP)** is a forum where ISAC members share ideas, knowledge, best practices, and concerns related to the detection and prevention of identity theft fraud. These forums help facilitate a stronger network of analysts whose regular participation maximizes the collective knowledge across the IRS, tax industry and states.



The **Trusted Third Party (TTP)** is an essential component of any information-sharing center. TTPs facilitate information sharing among entities where sharing otherwise wouldn’t occur – all to achieve a shared goal that protects the entire ecosystem. The ISAC’s Trusted Third Party allows competitive and disparate entities in the tax industry, and federal and state taxing agencies to contribute information that defends the entire tax ecosystem from external threats.