

# 2022 Annual Report

# Contents

<b>Our History .....</b>	<b>4</b>
The IRS Security Summit .....	4
Formation of the IDTTRF-ISAC: The Platform and the Partnership.....	4
Risk Environment.....	5
<b>Year in Review .....</b>	<b>6</b>
Metrics.....	6
User Activity and Collaboration .....	7
<b>How the ISAC Works.....</b>	<b>7</b>
Strategic Plan.....	8
Leadership.....	8

*As fraud and criminal behavior continues to evolve and grow, the value of our partnership becomes even more important. We all play a key role in fraud detection and prevention, and we must remain innovative and diligent in our combined efforts to prevent identity theft tax refund fraud. FTA is proud to be an endorsing partner, and the members of FTA remain committed to protecting taxpayers and the integrity of the tax ecosystem. We want to acknowledge and thank the individuals who dedicate their time to this very important work.*

Neena Savage, Esq.  
Rhode Island Tax Administrator and FTA President

*CERCA is honored to be one of the major endorsing organizations of the ISAC since its inception in 2016. Through this public private partnership with the IRS, States and Industry, major inroads continue to be made in combating identity theft. This year saw major attempts by cyber criminals to steal from American taxpayers and businesses. The ISAC continues to combat these criminals, but it is an ongoing challenge as threats are ever evolving. With the strong leadership of the ISAC Senior Executive Board and with increased collaboration, particularly through the Annual ISAC Summer Roundtable hosted by CERCA, this public private partnership stands ready to address new challenges for the protection of the American taxpayers and businesses.*

Shannon Bond, CERCA Chair

*In a world of non stop cyber attacks from all directions, the enormous reduction in tax identity theft is being sustained by this ISAC and its collaboration of private sector companies, the state DOR's, under IRS leadership, and MITRE, the necessary trusted third party operator. It s a great model.*

Steve Ryan  
American Coalition of Taxpayer Rights



## Executive Summary

Tax Filing Season 2022 brought challenges as well as successes for the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC). Collaboration and partnership, leveraging the learned experiences and shared issues of all ISAC partners, made for a fruitful year of service and performance towards the goal of protecting taxpayers while thwarting the efforts of tax identity thieves and fraudsters in all tax service channels. However, we recognize the future is not without challenge and we are committed to face those challenges together as a strong partnership.

The ISAC partnership of 73 organizations remains resilient at the conclusion of our sixth filing season together. Industry partners shared nearly 8 million leads (reports of suspicious activity) and all partners shared 245 alerts (real-time reports of suspicious activity). Alerts build 'historical' patterns of identity theft schemes, resulting in the ISAC's 453 users viewing the historical record of 1,345 alerts over 9,000 times as they conducted their analysis of trending suspicious activity.

This year the ISAC embarked on a new five-year strategic plan which strengthens our efforts and further codifies our commitment. Accomplishments during this first year of the new plan include:

- Developed a new and updated metrics reporting format to capture ISAC strategic goals.
- Expanded ISAC outreach activities to include best practices for IRS, state, and Industry partners to operationalize the ISAC in their respective organizations.
- Increased monitoring of predatory developments through five newly identified identity theft schemes during filing season 2022, one of which hit the social media arena causing a deluge of fraudulently filed refund requests.

### 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.

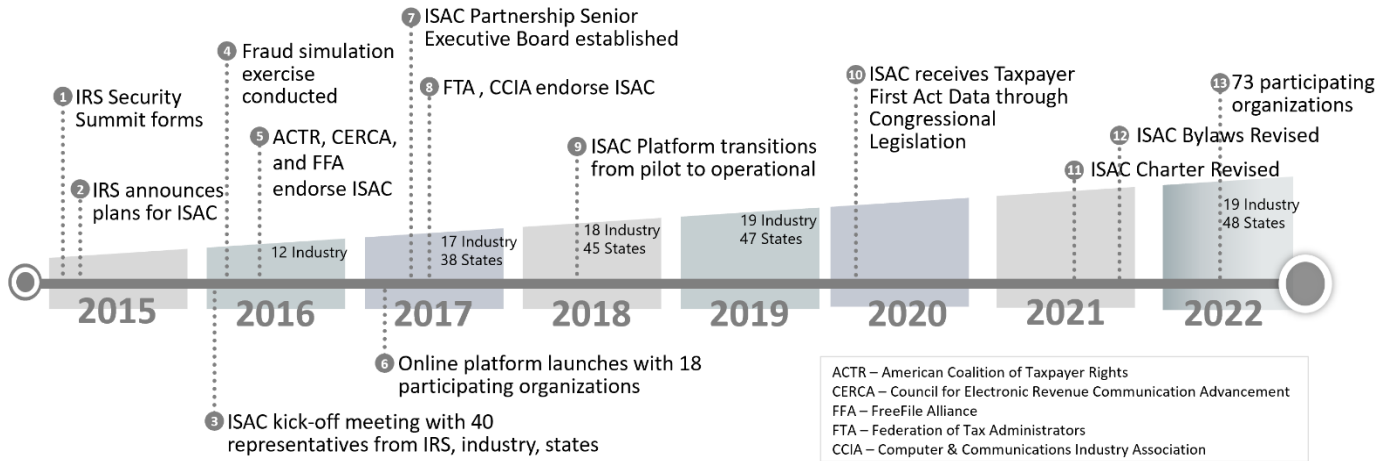
*“Now going into its seventh year, the ISAC is a shining example of what can be accomplished when the states, nation’s tax industry and the IRS partner with a common goal of protecting against identity theft and tax refund fraud,” said IRS Commissioner Chuck Rettig. “In a sign of the success of this initiative and the larger Security Summit effort, the ISAC so far this year has logged more than 7 million suspicious activity leads, more than three times the amount for all of 2021. Every lead and alert help our partnership stop the bad guys, ensure refunds get to hard working taxpayers and protect revenue for federal and state governments that funds essential public services.*

IRS Commissioner Charles Rettig

# Our History

## The IRS Security Summit

In March 2015, the IRS convened an unprecedented coalition of state tax agencies and the private-sector tax industry officials to tackle a difficult task – fighting back against emerging criminal syndicates, based in the U.S. and overseas, that were filing fraudulent returns for refunds. These new cyber gangs were often sophisticated, highly organized, and well-funded. In 2016, Security Summit partners agreed on the 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 by the IRS, 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) operated by the MITRE Corporation. The FFRDC serves as the ISAC’s Trusted Third Party (TTP) facilitating 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 ensure that sharing occurs in a manner consistent with applicable regulations and laws.

The ISAC partnership includes 73 organizations – 48 States, 15 Industry partners, 4 Financial Services Companies, the IRS and 5 Endorsing Organizations. This collaboration and data sharing creates a formidable defense against criminals’ ongoing attacks on our tax system.

A 2022 comparative analysis with 29 other Information Sharing and Analysis Centers showed the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (IDTTRF-ISAC) follows, and in some instances exceeds, operating norms as outlined in these characteristics:

- ✓ ISAC 2021 Renewal of Charter and Bylaws (staying current)
- ✓ All partners are focused on protecting taxpayers
- ✓ Partners volunteer time and resources to the mission
- ✓ Analysts Community of Practice provides multi dimensional layers of competence to problem solving
- ✓ Partner ‘potluck’ contributions reduce burden and sustain ISAC activities
- ✓ Trusted Third Party provides data security and partner-specific data anonymity, ensuring trust
- ✓ Trust is high, communications & threat sharing produces action



## Risk Environment

With the introduction of numerous large refundable tax credits to assist taxpayers in the face of the COVID pandemic, 2022 brought special challenges to ISAC partners. Fraudsters increased the breadth and sophistication of their efforts to take advantage of programs established through pandemic-related legislation, filing fraudulent tax returns using stolen identity information and mounting elaborate attacks from every conceivable vector.

In the face of this onslaught, ISAC users' ability to detect schemes early and share information quickly through the ISAC platform has never been more important. The cross-sector collaboration made possible through the ISAC prevented financial losses and damage to an untold number of taxpayers.

Identity theft tax refund fraud and other attempts to steal from the tax system are here to stay. While successes have been hard fought and notable, the number of attacks is large and increasing, both in volume and sophistication, and has expanded to other business sectors including Supply Chain Attacks, Social Media Scams, and more complex tax scams.

In 2021, the Federal Trade Commission's (FTC) *Consumer Sentinel Network* reported over 5.7 million reports of consumer fraud with a total fraud loss of \$5.9 billion. Individuals filed more reports about Identity Theft (25.0% of all reports), in all its various forms, than any other type of complaint.<sup>1</sup> Based on ISAC experience, many of those stolen data records will be used for years to come in attempts to defraud the tax system in various forms and schemes.

Government documents or benefits fraud topped the list of identity thefts reported and used in 2021. The FTC received 395,948 reports of data misused to apply for a benefit such as unemployment insurance. States were also subject to an increase of fraud involving state tax refunds and unemployment insurance claims. In the *2022 Future of Fraud Forecast* by Experian, experts describe a pivot from prior year attacks to new areas. These include:

- *Abuse of the "Buy Now – Pay Later" vendors: identity theft and synthetic identity fraud when a fraudster uses a combination of real and fake information to create an entirely new identity. This could result in significant losses for vendors and consumers.*
- *Cryptocurrency Scams: fraudsters will set up cryptocurrency accounts to extract, store, and funnel stolen funds, such as the billions of stimulus dollars they have already swindled.*
- *Ransomware Attacks: in addition to fraudsters demanding a hefty ransom to regain control of a company's data, criminals steal data from the hacked company. Companies lose sales because of the halt caused by the attack, and fraudsters monetize stolen data such as employees' PII and HR records, leaving employees vulnerable to personal attacks.*

**In 2021 government documents or benefits fraud topped the list of identity thefts reported and used.**

- *Digital Elder Abuse: there was a 25 percent increase in online activity since COVID-19 as many, including the elderly, went online for everything from groceries to scheduling health care visits. This onslaught of digital newbies presents new, vulnerable potential victims for fraudsters to focus especially on social engineering (when a fraudster manipulates a person to divulge confidential or private information) and account takeover fraud (when a fraudster steals a username/password from one site to takeover other accounts).*
- *Social media and dating app abuse: increase in the use of public information and access to fake intimate and trusted relationships to defraud people using stolen identity information to fake a persona.<sup>2</sup>*

**The tax ecosystem saw a dramatic uptick in pandemic related tax refund fraud identity theft. This is reflected in the significant increase in industry Leads as well as the new alert schemes identified by the partners.**

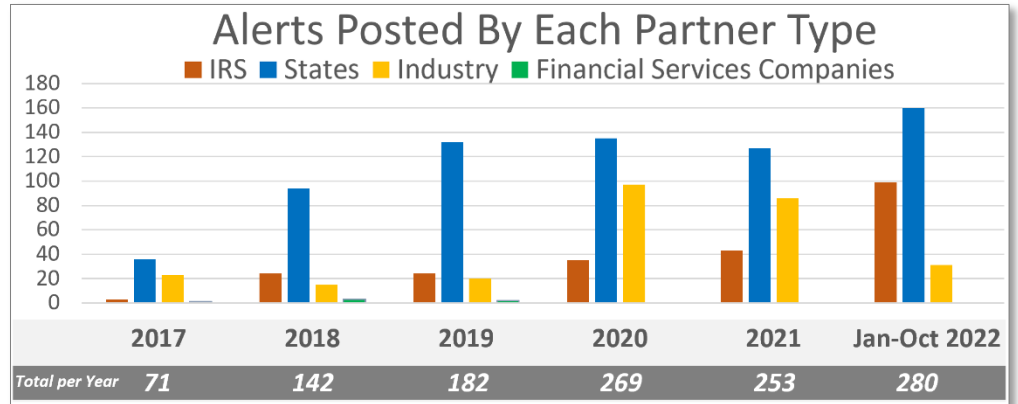
<sup>1</sup> [Consumer Sentinel Network Data Book 2021 | Federal Trade Commission \(ftc.gov\)](https://www.ftc.gov/consumer-sentinel-network-data-book-2021)

<sup>2</sup> [FY22-Q4-Future-FraudForecast-Infographic \(experian.com\)](https://www.experian.com/fraud-forecast-2022)

# Year in Review

2022 was a year of accomplishment and maturation for the ISAC. The year saw new highs for members participating, leads submitted and overall success and direction for the ISAC.

- Alerts remain central to the ISAC as partners refined the critical data elements they share with improved quality and indicator data being used.
- Leads (suspicious activity) are equally critical to the ISAC and for 2022 almost 7.8 million were shared by industry partners.
- As volunteers, members of the ISAC have done a tremendous job creating partnerships and building trust among members.
- Annual ISAC Roundtable gathering of partners and participants in a hybrid (in-person and virtual) session produced new ideas for conducting threat assessments and fostered continued trust and collaboration.
- The partnership completed and delivered the new five-year Strategic Plan.
- ISAC outreach activities expanded to include capturing best practices for IRS, state, and Industry partners to operationalize the ISAC in their respective organizations.



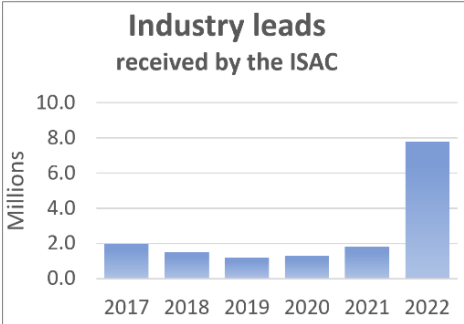
*I love the alerts, love the collaboration of the ACOP and love what the TTP does to keep everyone connected, talking, and providing continual opportunities to learn.*  
State Partner

*The addition of Federal Tax Information in the ISAC gets me to the type of fraud I can focus on.*  
Industry Partner

- Partnership monitoring of fraudulent activity identified six identity theft schemes during filing season 2022, one of which hit the social media arena causing a deluge of fraudulently filed refund requests.

## Metrics

The Partnership-approved metrics provide qualitative and quantitative information to assess and measure progress and performance to reflect the value of the ISAC in the tax ecosystem and provide actionable information to help inform future progress and initiatives. The ISAC currently measures its work in three categories:



Industry identification of suspicious activity grew from ~2M industry leads in 2021 to ~8M industry leads in 2022.

- 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.

*My FAVORITE data is confirmed fraud both from States and IRS. Confirmed fraud is a definite data point.*  
Industry Partner

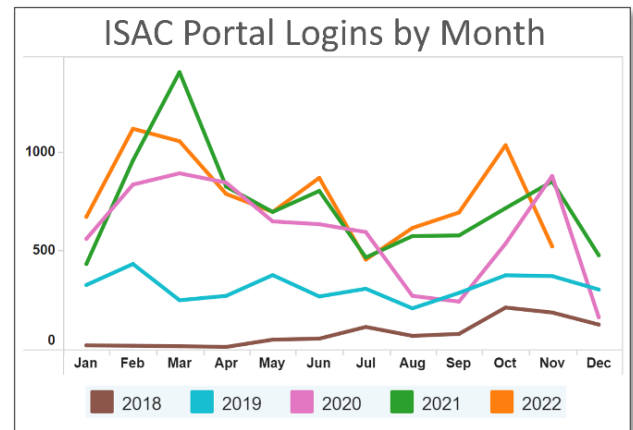


## User Activity and Collaboration

Collaboration and information exchange within the ISAC is unprecedented in the tax ecosystem. Each of the 73 partner organizations and 443 users contributes a unique set of skills and valuable insight. The partnership is united on the common goal to address tax refund fraud identity theft and is committed to protecting taxpayers and tax revenue.

The Analysts Community of Practice (ACoP) Annual Meeting highlights ISAC collaboration as a value for each partner.

**The 2022 Annual ISAC ACoP meeting drew 176 registrants from 47 partner organizations – representing 92% of ISAC participant organizations. That’s an increase from 167 users representing 44 organizations in 2021 and 106 representing 33 in 2020. Additionally, ACoP calls throughout the year regularly draw around 150 participants.**



Partners continue to work in the ISAC during peak filing season activities January – April and again in October each year

Fraud analysts from partner organizations, who previously had no process to know and/or share threat data, now share best practices, discuss fraud schemes, and share identity theft trends. They build relationships and develop a greater understanding of how identity theft impacts each partner’s work. These analysts are the boots on the ground, and they work tirelessly every day to protect the tax ecosystem.

## How the ISAC Works

Information Sharing and Analysis Centers collect, analyze, and disseminate actionable threat information to their members and provide members with tools to mitigate risks and enhance resiliency. ISACs reach deep into their sectors, communicating critical information far and wide and maintaining sector-wide situational awareness<sup>3</sup>. The Identity Theft Tax Refund Fraud Information Sharing and Analysis Center works through the collaboration of members using a secure platform and overseen by an active executive board in partnership with the IRS, states, and Industry to protect the tax ecosystem. The ISAC:

- Receives and analyzes data from ISAC participants and other sources in real time as events occur or as experienced or received.
- Provides information through anonymized, aggregated reports and visualizations that help members to better detect and stop identity theft refund fraud from occurring.
- Offers and operates through a secure platform to help users quickly find and share information, significant activity of interest or anomalous results.
- Supports users to help maximize the benefits of ISAC tools and analytic products.



<sup>3</sup> [National Council of ISACs \(nationalisacs.org\)](https://nationalisacs.org)

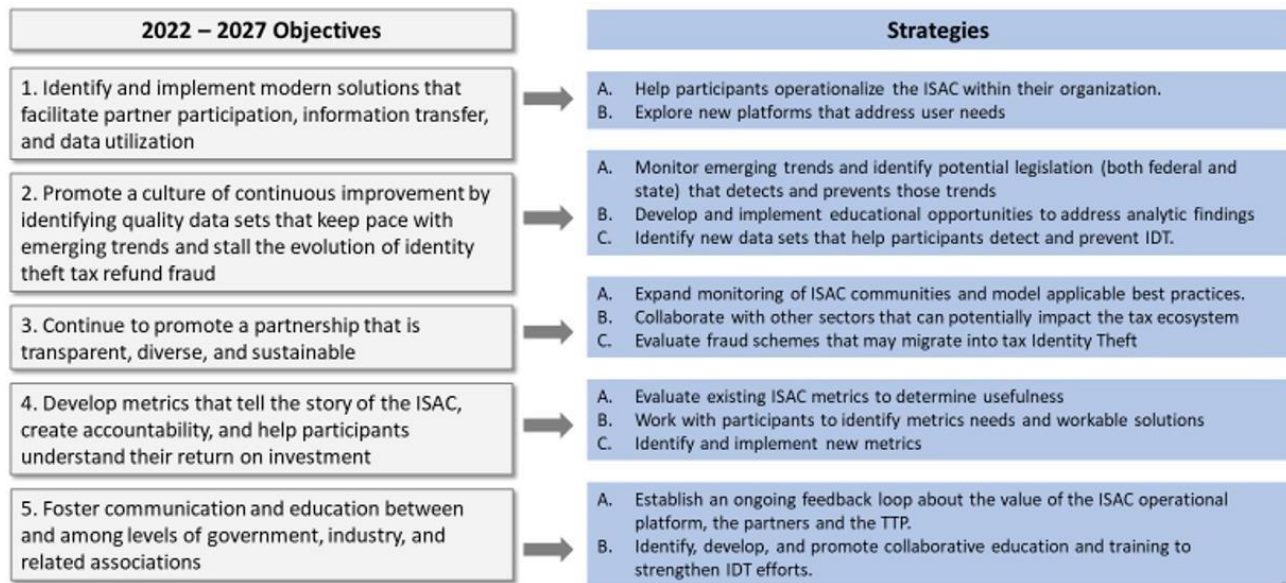
- Conducts tailored training for analysts and executives.

The ISAC works in real time to detect and prevent identity theft tax refund fraud through the trusted network of partners submitting data of mutual interest that can be acted upon quickly. The ISAC model is now emulated by other Federal/Private Sector partnerships based on the key elements of Information Sharing Analysis Centers.



## Strategic Plan

The Senior Executive Board approved and deployed a five-year strategic plan for 2022-2027. The development of the plan included gathering information and feedback from all participants of the ISAC and conducting an environmental scan of the tax ecosystem, other ISACs and the identity theft threat environment. The objectives and strategies have been designed to provide a comprehensive and agile approach to combatting tax refund fraud identity theft.



## Leadership

The Partnership's Senior Executive Board and its committees have equal representation and includes 15 senior level representatives (five each from the IRS, State Revenue Agencies, and private sector tax industry).

The Senior Executive Board:

- 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 reviews results of analyses submitted by the TTP.

The Senior Executive Board Co-chairs offer leadership and communication coordination for their respective sectors.

- Michael Beebe; IRS Co-chair; Director, Return Integrity & Compliance Services, Wage & Investment Division, Internal Revenue Service
- Daniel Hassell, State Co-chair; Secretary of Revenue Pennsylvania at Commonwealth of Pennsylvania
- Kathy Pickering, Industry Co-chair; Chief Tax Officer, H&R Block, Inc.