

November 4, 2011

Rep. Rich Nugent (FL-5)

**Testimony of Rep. Richard Nugent Before the
Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency, and Financial
Management**

First, I want to take a moment to thank the Subcommittee and especially Chairman Platts and Ranking Member Towns for the opportunity to speak before you today. Although tax fraud identity theft is a nationwide problem, I wanted to make the Subcommittee aware of what's happening in Tampa Bay area and my District.

Recently, the Tampa PD started noticing that many of their most notorious drug dealers were no longer on the streets. Officers pulled one of their previous dealers over during a routine traffic stop and discovered massive amounts of prepaid debit cards, ledgers containing Social Security numbers, and laptop computers in the back of the car.

Though this and similar routine traffic stops and drug busts, Tampa PD discovered a scheme known as "Turbo Tax." One perpetrator had a ledger containing 100 names of deceased people and, after investigations, it was discovered that this one man had made well over 1,000 false returns and had collected \$2.4 million.

Tampa PD worked well with local IRS agents and U.S. Attorneys in their investigations.

However, once they went to the D.C. bureaucrats, detailing exactly how the criminals steal the Social Security numbers, file the fraudulent tax returns, and launder the resulting money, the feds mostly turned a blind eye to the fraud.

The Tampa PD have explained how the criminals got Social Security numbers. Initially, they targeted deceased people, filing returns with information they found on websites like ancestry.com . Once they ran out of dead people, they started stealing Social Security Numbers from living victims. Tampa Police Department has had cases where information was stolen from nursing homes, schools, and hospitals. Additionally, James Haley VA Medical Center sent letters to about 200 veterans warning them that their identity had been stolen to file false tax returns. The VA Inspector General is investigating this case.

Tampa PD also knows how the criminals are filing the returns. The actual fraud is not committed by an “organized group” but by individuals. The Tampa PD have busted what the lawbreakers call “Make It Rain Parties,” where criminals get together, get a hotel room with internet access, and file fake return after fake return.

The police know how the money’s being laundered. The criminals have worked out deals with unscrupulous business owners who cash the checks or the debit cards in exchange for a cut of the money. In Tampa, most of the money seems to be laundered by a select group of high cash flow

businesses including used car dealers and clothing shops. One business alone received approximately \$3.5 million in Treasury money.

How does Tampa PD know all of this? The criminals are telling them.

Even after they've been read their Miranda Rights, the crooks are laying out their entire process to the cops. They're freely admitting their crimes, because they don't think federal officials will do anything about it. Unfortunately, it seems the criminals are right.

As a representative from the GAO told the Subcommittee in your June hearing on this issue, the IRS identified 248,357 incidents of tax-related identity theft in 2010. However, in 2010, the IRS Criminal Investigative division only had 4,706 investigations total, into all types of fraud. The IRS and by the Justice Department just say these cases aren't of "sufficient severity" for them to look into it. Experiences in Tampa show that the lack of action is not reflective of the agents' desire to prosecute, but the bureaucracy within the IRS and their administrators.

Even more infuriating, other federal agencies are notifying the IRS of this fraud, but they continue to send the checks. In Tampa alone, the U.S. Postal Service stopped the delivery of an estimated \$100 million in fraudulent refunds in a six-month period. Media reports also say that the company issuing the prepaid debit cards notified the IRS of fraud concerns. However, the IRS ignored these warnings and just sent out Treasury checks to those suspected fraudsters. I cannot understand how other government offices can be telling the IRS that their checks are going to fraudsters, and yet the IRS continues to pump them out.

Given our current fiscal situation, it is unconscionable that the federal government can be aware of billions of dollars of tax dollars being stolen right out from under our noses and do very little about it.

I'm here because I want to find a solution to this problem. First, the IRS needs better controls to keep these fraudulent returns from ever going out the door. Second, when identity-related tax fraud does occur, these criminals must be prosecuted, and local law enforcement ought to be involved in that process.

Maybe the IRS doesn't want to increase anti-fraud safeguards because it might slowdown the return process. But I think honest taxpayers would rather get their returns a few days later, and keep money out of the hands of criminals, than get their tax return a day or two faster.

In closing, thank you again, Chairman Platts, for the opportunity to testify this morning. I look forward to working with both federal and local officials as well as my colleagues here in Congress, including the Subcommittee, to bring an end to this needless waste of taxpayer dollars.