The Power of Public Records:
Prevent Tax Refund Fraud and Boost Tax Revenue with LexisNexis®

Continued budgetary constraints puts pressure on government agencies to find new revenue sources or prevent tax fraud to reoccur within their jurisdiction.

LexisNexis®

Risk Solutions
Government

The financial emergency of 2008 has morphed from an ongoing recession into a long-term fiscal crisis. The collapse of the housing market struck a blow to states whose budgets had been largely dependent on property taxes, while a growing jobless rate reduced revenue from income taxes and strained already-stretched social programs. Today, states that mortgaged assets and cut funding in 2008 and 2009 as temporary measures are awakening to what has become a new normal. As New York Governor Andrew Cuomo recently said: "you can't make up these kinds of savings over this long period of time through a budget cutting or trimming exercise. We are going to have to reinvent government."

That re-invention ethic is no longer the purview of ambitious-minded public officials; it has become a necessity. With budgets increasingly tight at the federal level, agencies are seeking to transform their operations to more effectively meet their missions. Similarly, in a recent report the National Governors Association found that a majority of state governors have identified redesigning state government as a top priority. The governors have suggested consolidating agencies, boards, and commissions, centralizing departments, streamlining processes and regulations, eliminating unfilled employee positions, cutting pensions, and even reducing the costs of their own offices. Raising taxes—a common tactic in filling budget shortfalls of the past—is not only politically untenable, it could be harmful to the recovery. Instead, states are focused on providing tax relief and examining tax expenditures for ways to recoup revenue. They all recognize that a more efficient government is a more fiscally effective one.

Tax Refund Fraud

Putting money back into the pockets of citizens is one of the most effective ways to stimulate the economy. Both state and federal governments have expanded tax credits in recent years – but those refunds can neither stimulate the economy, nor benefit struggling families if they are subject to fraud. Unfortunately, as refunds have grown, so too has the incentive for criminals to hijack personal information. In spring 2008 – before the financial crisis – the IRS identified just over 50,000 cases of taxpayer identity theft. The next year that number had tripled to nearly 170,000 cases. In 2010 it doubled again.

This disconcerting trend not only hurts the citizen, whose information and refund has been stolen—it diverts resources away from serving citizens. Federal, state and local employees expend valuable time working with citizens to resolve the issue and recoup the refund.

Criminals often use the financial information of deceased persons or personal information stolen from large organizations to steal refunds. They combine this basic data with information publicly available on the Internet to steal the refunds of taxpaying citizens—and they are good at it. Estimates put tax refund fraud at up to five percent and rising, which translates to billions of dollars mailed away every year. That's billions of dollars which could go to job retraining programs, salaries for police officers and firefighters, and money to keep the lights running. It's billions of dollars that the federal government and states are intent on getting back.

Traditional Methods

Detecting and prosecuting fraud has traditionally been a difficult task. Of the nearly 170,000 instances of fraud in 2010, the IRS criminal investigative division initiated fewer than 5,000 cases, choosing instead to focus on schemes of national scope. Investigations can be costly and time-consuming to pursue, so the federal government and states have turned to other methods with the aim of preventing fraud before it takes places. One proven technique has been to run tax refund requests through an automated, rules-based filter. Today, the federal government and states flag instances where:

- The agency has already paid out a refund
- The refund is for too much
- The agency has already flagged the individual on its "Do Not Pay List"
- The agency has already identified the individual as deceased

The rules-based filter has been effective at weeding out some cases of fraud, but its effectiveness depends upon the breadth of the agency's own databases. Put simply: rules-based systems are not enough. Even in the federal government and states that maintain large databases, the filter cannot detect the increasing instances of fraud perpetrated by individuals beyond state lines. That is where the LexisNexis® Tax Refund Investigative Solution comes in.
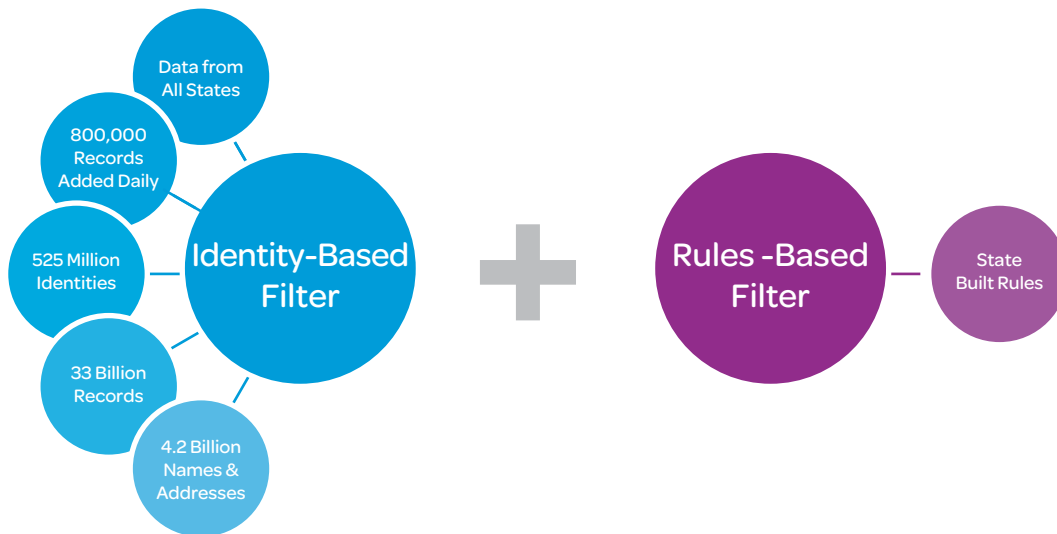
The Power of Public Records

For government agencies to find fraud before it happens, they must be able to access records across city, county, and state boundaries. With LexisNexis, agencies can now access billions of public record sources to establish identity-based filters. Rather than depending on the rules and records maintained by the agency, these filters develop a comprehensive picture of the taxpayer's identity to help detect fraud.

In a pilot program conducted by a state with more than one million annual refund checks, the LexisNexis solution flagged five percent as potentially suspicious. The identity-based filter uncovered areas that rules-based filters could not, including:

- Individuals that were deceased

- Social Security Numbers that were altered to elude "Do Not Pay Lists"

- Individuals not associated with their given address

- Individuals not associated with their given Social Security Number

- Identities not found in public-records searches

- Individuals incarcerated in prisons

With a minimum of at least one million filings and an average tax refund of $300-$500, states may be paying out $25 million or more in fraudulent claims. With the value of public records and identity-based filters, the federal government and states can finally combat the growing rate of tax refund fraud.

A Seamless, Automated Process

The LexisNexis Tax Refund Investigative Solution uses public records to confirm that submitted refund data is valid and employs advanced data-linking and analytics capabilities to uncover fraud. If a returned record is flagged with a fraud indicator, the individual is asked to answer a series of personalized questions, such as familial relationships, former residences, or vehicle registrations. These intuitive question-sets are fast and easy for citizens to answer but nearly impossible for criminals to fake – and they are fully customizable for adaption to state risk policies, procedures, and privacy requirements. LexisNexis integrates its Identity Authentication questions seamlessly into the tax agency's website using an XML feed to support the existing user interface. This fast and automated process significantly reduces tax fraud without requiring labor-intensive input from busy tax professionals—and it ensures a speedy tax-return process.

Proven Results

LexisNexis has a proven reputation for helping government agencies of all sizes to reduce fraud, waste, and abuse in their tax system. With one of the largest public records databases in the world, LexisNexis leverages advanced scoring analytics to provide solutions that address government's evolving needs in the risk sector—while upholding high standards of security and privacy. Powered by identity verification tools endorsed by the American Bankers Association, the LexisNexis Tax Refund Investigative Solution provides a powerful, simple way for government tax agencies to reduce fraud in this unprecedented period of fiscal constraint.

Learn how the LexisNexis Tax Refund Fraud Investigative Solution can help your government agency to detect fraud and discover new revenue.

Call 866.528.0778 or visit
www.lexisnexis.com/government/revenuediscovery

About LexisNexis® Risk Solutions
LexisNexis Risk Solutions (www.lexisnexis.com/risk) is a leader in providing essential information that helps customers across all industries and government predict, assess and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, we provide products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of Reed Elsevier, a leading publisher and information provider that serves customers in more than 100 countries with more than 30,000 employees worldwide.

Our government solutions assist law enforcement and government agencies with deriving insight from complex data sets, improving operational efficiencies, making timely and informed decisions to enhance investigations, increasing program integrity, and discovering and recovering revenue.

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