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THE TAX LAWYER

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### TurboTax Fraud May Impact Federal Returns Too, FBI Investigating

Tax filing season arrived with a bang this year, punctuated by a big uptick in fears about fraud. There was nearly a bank run when TurboTax had to suspend filing state tax returns over fraud concerns. It would be bad enough to find that someone had filed 'your' tax return in your state and scooped up your refund. But all indications were that this was just a state tax problem, not a federal one.

Not any more. Although details are sketchy, the [FBI is now investigating fraudulent tax returns filed through TurboTax](#). Some taxpayers claim that their federal refund may be in jeopardy. Taxpayers interviewed about the [fraudulent tax filings](#) said their IRS data was compromised too and returns were filed, perhaps based on their 2013 tax return data.

Imagine getting a congratulatory email from TurboTax that your federal return is on file when you haven't yet filed! Given that virtually everything is electronic these days, that has become a massive issue.

TurboTax is one of the most popular individual return preparation programs, but the impact of this kind of mess is significant. During the state return flap, [H&R Block](#) was able to one-up its TurboTax rival by stating that it was not impacted by all of this. When TurboTax got back in the saddle and [resumed the processing of state tax returns, it said it added security](#).



But is anyone completely safe? The IRS estimates that it paid out \$5.2 billion in fraudulent tax refunds related to identify theft just in the tax return filing seas last year. That seems like a bad number until you add the amount of bogus refunds last year the IRS says it was able to stop: \$24.2 billion. Still, straightening it out if you are the one hit can be challenging. The IRS and the states have sophisticated software systems to detect and prevent identity theft.

Of course, no system is perfect. The IRS has [resources](#) for taxpayers who think they have been victims of identity theft, including a hotline to call. Various states have similar resources. If you think you have been the victim of identity theft, act promptly. Identity theft is just one of many types of fraud taxing agencies must monitor and guard against. The earned income tax credit is often flagged as potentially fraudulent, but the government's record with preventing fraud isn't stellar.

Tax filing season this year has already been marred by concerns over the hassle of additional [Obamacare tax filings](#). But no matter how frustrated you may be about taxes, the last conversation you want to have with the IRS is about fraud.

For many of us, tax seasons starts with collecting Forms W-2 and 1099. If you are [missing a Form 1099, you shouldn't ask for it](#), but do make sure the 1099s you receive are [correct](#). And keep your return data as safe as you can. Change your password and keep your fingers crossed. And maybe, consider [not filing your taxes early this year](#).

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