IRS
STATES
INDUSTRY

Identity Theft
Tax Refund Fraud
ISAC

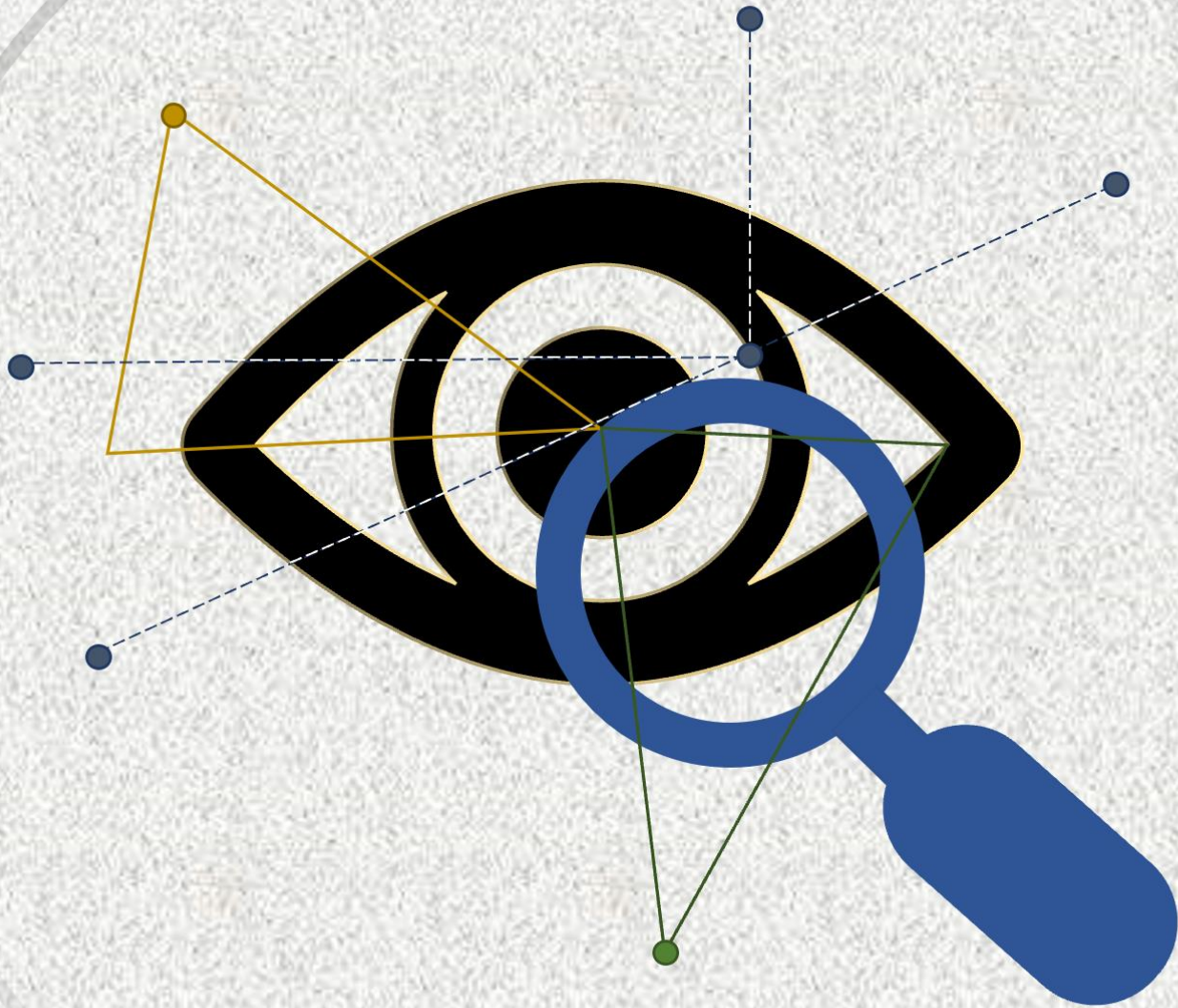*The ISAC provides a collaborative platform that helps us combat identity theft tax refund fraud*
– State Partner

Identity Theft Tax Refund Fraud
Information Sharing and Analysis Center

2021 Annual Report

Executive Summary

2021 proved to be another exciting and successful year for the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC). Partners continued to collaborate and share vital information used for detecting and preventing sophisticated fraud schemes ensuring our nation's taxpayers and the revenue system are protected from the disruptive behavior of fraudsters.

This year the partnership celebrated five years of protecting taxpayer identity through collaboration. That celebration included the issuance of the 1,000th ISAC alert shared by partners. The first alert issued in 2017 reached 18 partner organizations. The 1,000th alert issued this year reached 72 partner organizations.

The successful implementation and sharing of information from the IRS through the Taxpayer First Act (TFA) data sharing provisions continued with more files being shared and utilized by ISAC partners.

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.

2022 will mark the beginning of a new 5-year strategic plan cycle. The objectives of that plan are:

- Identify and implement modern solutions that facilitate partner participation, information transfer, and data utilization.
- Promote a culture of continuous improvements by identifying quality data sets that keep pace with emerging trends and stall the evolution of identity theft tax refund fraud.
- Continue to promote a partnership that is transparent, diverse, and sustainable.
- Develop metrics that tell the story of the ISAC, create accountability, and help participants understand their return on investment.
- Foster communication and education between and among levels of government, industry, and related associations.

During 2021, the ISAC also implemented new analytic reports and data sets to facilitate the fraud detection and prevention work of the partners. More reports were accessed by partners in the first nine months of 2021 than all of 2020.

The ISAC represents an important line of defense and protection for the tax system of America. This innovative partnership combines the best of the public and private sectors of the tax community, working together to protect the nation's taxpayers. The ISAC's work in the past year reflected continued progress in strengthening fraud detection and countering identity theft tax refund fraud. Even though great success has been accomplished in the recent years, the battle continues to protect tax data every day by those wishing to do harm. Thanks to our combined efforts, our systems and platforms are secure and safe, but we must be vigilant each day, and the work of the ISAC is central to that.

IRS Commissioner Charles Rettig

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.

We each see our specific view of what's happening, but it's very helpful to come together to discuss the overall picture.

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

Learning what other partners are doing is very helpful to confirm our approach as well as to generate additional ideas on how to better utilize our data to find identity theft.

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.

We use ISAC data with our own data which helps us find and confirm fraud.

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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 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.

The public cyber security trend line has been negative, with increased ransomware attacks and some notable recent losses of tens of millions of US citizens identities by companies outside the tax industry. In contrast, the ISAC, and IRS Summit activity, are leading and providing a much more positive trend of continued year over year reduction in tax identity theft, fueled by the continued combined efforts of MITRE, the IRS, industry and the states.
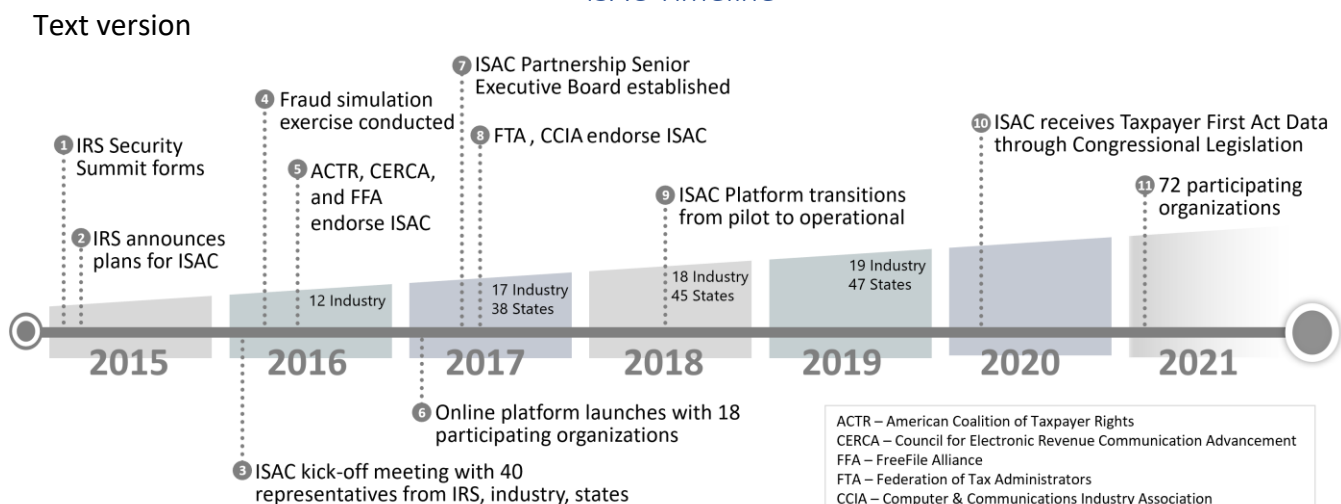—Steve Ryan
American Coalition for Taxpayer Rights

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, 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). 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.

ISAC Timeline

Text version

1 IRS Security Summit forms
2 IRS announces plans for ISAC
3 ISAC kick-off meeting with 40 representatives from IRS, industry, states
4 Fraud simulation exercise conducted
5 ACTR, CERCA, and FFA endorse ISAC
6 Online platform launches with 18 participating organizations
7 ISAC Partnership Senior Executive Board established
8 FTA , CCIA endorse ISAC
9 ISAC Platform transitions from pilot to operational
10 ISAC receives Taxpayer First Act Data through Congressional Legislation
11 72 participating organizations

12 Industry
17 Industry 38 States
18 Industry 45 States
19 Industry 47 States

2015 2016 2017 2018 2019 2020 2021

ACTR – American Coalition of Taxpayer Rights
CERCA – Council for Electronic Revenue Communication Advancement
FFA – FreeFile Alliance
FTA – Federation of Tax Administrators
CCIA – Computer & Communications Industry Association

The Risk Environment

Fraudsters have found new ways to gather ever-larger quantities of personal data stolen from breached corporate and government databases. These rich sources of personal data enable increasingly sophisticated attacks that can be monetized by ransomware and tax refund fraud. These types of attacks are more automated and require less work for the fraudster. This shift means more taxpayer data is at higher risk for use to commit identity theft related tax fraud. The criminal tax return created from that stolen information often looks identical to the real taxpayers' return, requiring a delicate balance of action between conducting a more in-depth review and ensuring the real taxpayer isn't negatively impacted by this work.

The ISAC provides a platform and partnership that allows us to come together and leverage each other's strengths through the sharing of information and prevention strategies designed to protect taxpayers and the integrity of the tax system. FTA is proud to be an endorsing partner of the ISAC and we appreciate all the hard work of everyone involved in this collaborative effort.

– Kimberly Lewis
President
Federation of Tax Administrators

The context of the global pandemic provided new grounds for identity theft. Programs designed to aid victims of COVID also created opportunities for fraudsters and placed even greater importance on the work of the ISAC. We must be cognizant of new tax laws and proactively determine how the fraudsters may leverage those changes.

The Federal Trade Commission reported a 91% increase in identity theft from fourth quarter 2020 to first quarter 2021.

In a 2021 *Future of Fraud Forecast* Report by Experian, experts see no reduction in fraudster's attempts to steal data. They predict:
- Increase in synthetic identity fraud
- Fraudsters will start to use fake faces using AI to fool biometric verification
- Stimulus fraud – fraudsters will use stolen personal data to intercept stimulus and unemployment payments
- Automated attacks
- Script creation, credential stuffing, and other automated methods will be used to make cyberattacks and account takeover scalable
- Small businesses with lackluster fraud prevention and data security will suffer losses not only from fraudsters but also wary customers

We recognize that we can't rest, we must continue our full-team efforts to address identity theft tax refund fraud. In 2021 with the ISAC's 72 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.

Year in Review

Accomplishments

ISAC partners continue their commitment and remain diligent in their efforts to combat identity theft tax fraud. Bad actors are looking for opportunities of convenience and are agnostic to whether these opportunities exist at the federal, state, or private sector level.

Through feedback and actions, partners identified four key ISAC attributes that keep them engaged:

- Trust and collaboration are the hallmarks of the ISAC
- Participation reflects commitment and engagement
- Alerts are an established tool in partners' processes
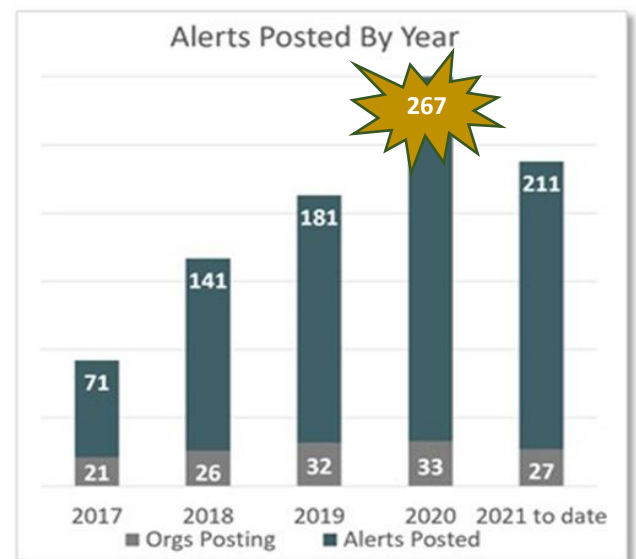- Data & reports expand partner value

The number of ISAC users per sector, the types of data shared by sector and the number of organizations contributing data remain steady and the increased partner engagement included:

Over **1000** Taxpayer First Act reports have been accessed in 2021

- The increasing utilization of the Taxpayer First Act data by state and industry partners. More than 1,000 reports were accessed and used to aid in the detection and prevention of identity theft tax fraud.

- New visualizations, analytic models, alert schemes, and data sources were developed and deployed to partners resulting in over 3300 analytic reports being accessed.

- Alerts remain central to the ISAC as partners refine the critical data elements they share.

- Leveraged technology to create opportunities for partners to come together during COVID by holding ISAC virtual meetings which throughout the year drew over 900 user attendees in total

- Published industry leads user guides to create an awareness and understanding of leads shared in the ISAC.

- Incorporated information provided under the Taxpayer First Act into existing ISAC metrics.

- Amended the original ISAC charter and partnership bylaws to align with the evolution of the partnership.

- Developed a new five-year Strategic Plan.

During 2020, ISAC users identified a major scheme which boosted the number of alerts and related alerts posted.

Alerts Posted By Year

Year	Orgs Posting	Alerts Posted
2017	21	71
2018	26	141
2019	32	181
2020	33	267
2021 to date	27	211

Strategic Plan

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

2022 – 2027 Objectives	Strategies
1. Identify and implement modern solutions that facilitate partner participation, information transfer, and data utilization	A. Help participants operationalize the ISAC within their organization. B. Explore new platforms that address user needs
2. Promote a culture of continuous improvement by identifying quality data sets that keep pace with emerging trends and stall the evolution of identity theft tax refund fraud	A. Monitor emerging trends and identify potential legislation (both federal and state) that detects and prevents those trends B. Develop and implement educational opportunities to address analytic findings C. Identify new data sets that help participants detect and prevent IDT.
3. Continue to promote a partnership that is transparent, diverse, and sustainable	A. Expand monitoring of ISAC communities and model applicable best practices. B. Collaborate with other sectors that can potentially impact the tax ecosystem C. Evaluate fraud schemes that may migrate into tax Identity Theft
4. Develop metrics that tell the story of the ISAC, create accountability, and help participants understand their return on investment	A. Evaluate existing ISAC metrics to determine usefulness B. Work with participants to identify metrics needs and workable solutions C. Identify and implement new metrics
5. Foster communication and education between and among levels of government, industry, and related associations	A. Establish an ongoing feedback loop about the value of the ISAC operational platform, the partners and the TTP. B. Identify, develop, and promote collaborative education and training to strengthen IDT efforts.

Metrics

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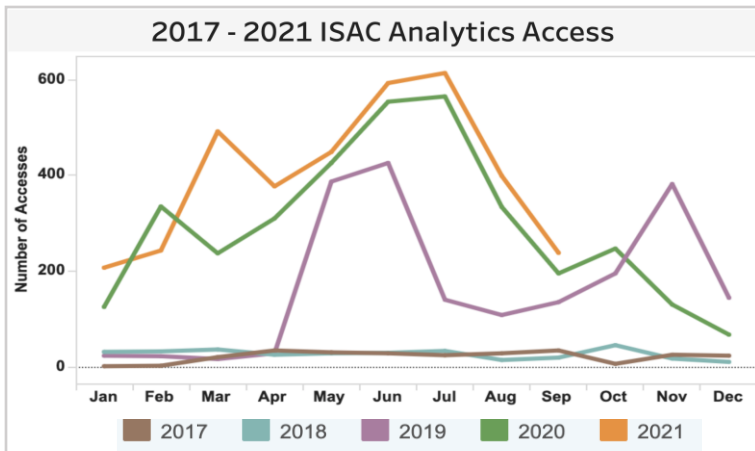
The ISAC currently measures its work in three categories:

- Levels of industry, state and IRS participation in the ISAC;
- Volume and quality of alert and information contributions that identify ecosystem threats; and
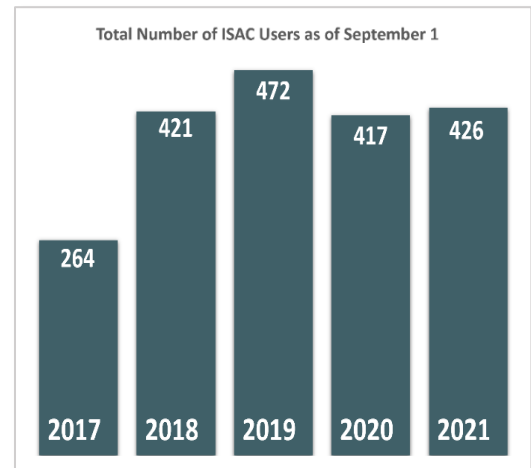- Volume and quality of the ISAC's data analysis in identifying suspected identity theft tax refund fraud.

97% of organizations with accounts in the ISAC are actively accessing the ISAC

56 Partners contributed data, participated in ISAC committees, provided feedback, or participated in pilots in 2021

Leaders from 32 partner organizations participated in the Annual ISAC Roundtable, providing executive insight for the 2022–2027 ISAC Strategic Plan

2017 - 2021 ISAC Analytics Access

Use of ISAC data increased over the last three years. Notice the peaks after filing season when partners begin assessing and developing strategies for the next filing season.

Participation in the ISAC remains steady as each partner maintains a consistent level of ISAC users.

Total Number of ISAC Users as of September 1

2017	2018	2019	2020	2021
264	421	472	417	426

ISAC Collaboration Results

Collaboration and information exchange within the ISAC is unprecedented. Each partner contributes a unique set of skills and valuable insight.   Everyone is united in a common goal and committed to make a difference.

The ACoP Annual Meeting had the largest and broadest attendance in ISAC history in 2020 – 85% of ISAC participant organizations attended (44 compared to 33 last year) with 167 attendees (compared to 106 in 2019).
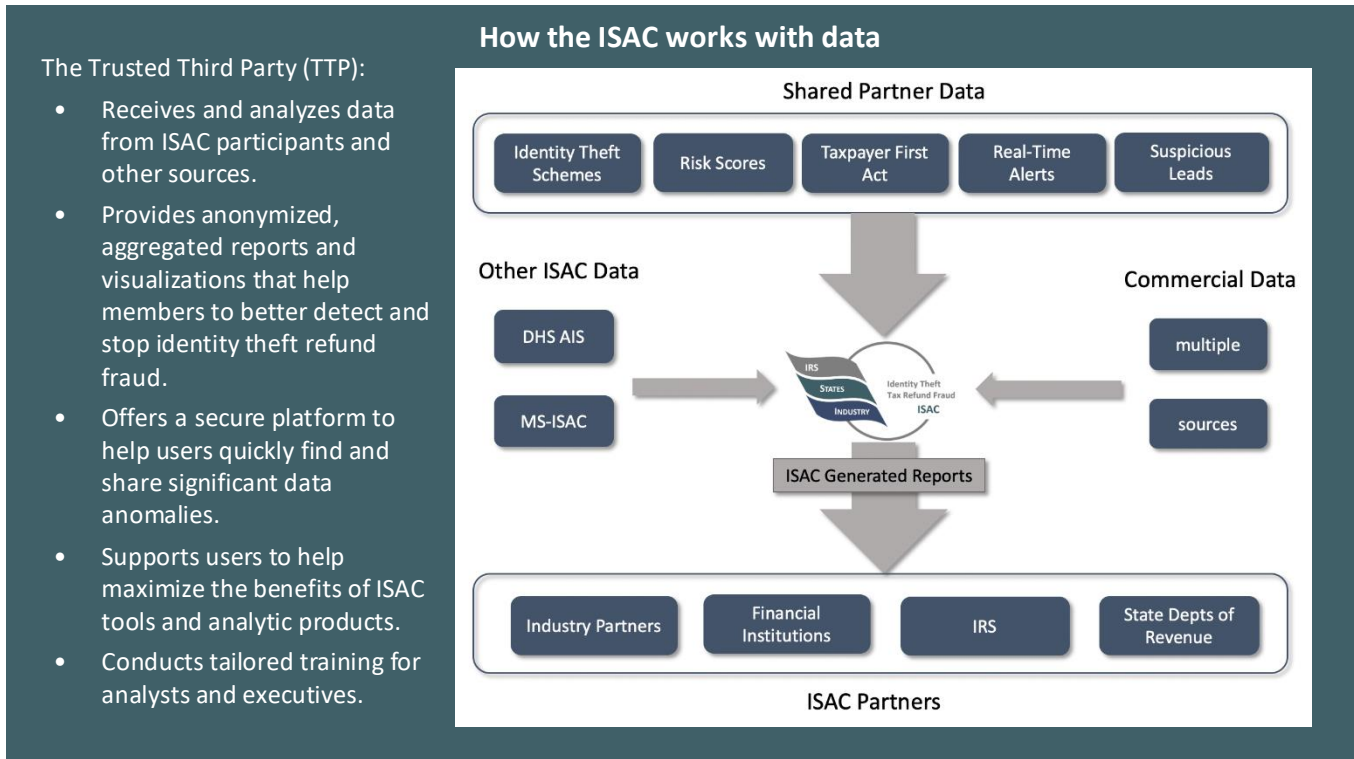

They share best practices, discuss fraud schemes, and share identity theft trends. They also build relationships and develop a greater understanding of IDT impacts to each sector's work. These analysts are the boots on the ground, and they work tirelessly every day to protect the tax eco-system.

CERCA has been honored to be one of the endorsing organizations participating and contributing to the ISAC since its inception for the betterment of American taxpayers. In the past two years we have seen back-to-back filing seasons unlike any others – due to the COVID pandemic – and this Public-Private partnership was and continues to be a critical defense mechanism against the emerging schemes of cyber criminals. The trust, communication, and collaboration that has been built through this partnership provided a strong foundation for sharing information and responding to new threats quickly. CERCA also had the pleasure of hosting the 2020 and 2021 Annual Summer Roundtables that provided collaborative discussions about the ISAC and efforts to combat fraud. We congratulate the IDTTRF-ISAC for their work these past five years and look forward to working with the ISAC in the future.
—Geno Salo, Council for Electronic Revenue Communication Advancement

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.

Shared Partner Data

Identity Theft Schemes | Risk Scores | Taxpayer First Act | Real-Time Alerts | Suspicious Leads

Other ISAC Data

DHS AIS
MS-ISAC

IRS
STATES
INDUSTRY
Identity Theft Tax Refund Fraud ISAC

Commercial Data

multiple
sources

ISAC Generated Reports

Industry Partners | Financial Institutions | IRS | State Depts of Revenue

ISAC Partners

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
- Sharing topics for study and analysis and reviewing results of analyses submitted by the TTP.

Senior Executive Board Co-Chairs

Each sector selects a Senior Executive Board Co-chair to provide sector leadership and communication.

- Michael 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.

ISAC Timeline

Key

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2021
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