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Division of Taxation

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Small businesses warned about wave of ID theft

Tips for taxpayers, businesses, and tax professionals from the Security Summit

PROVIDENCE, R.I. – The Rhode Island Division of Taxation, the Internal Revenue Service, and other partners in the Security Summit have joined together to warn small businesses to be on-guard against a growing wave of identity theft against employers.

Small-business identity theft is a big business for identity thieves. Just like individuals, businesses may have their identities stolen and their sensitive information used to open credit card accounts or used to file fraudulent tax refunds for bogus refunds.

The Internal Revenue Service, state tax agencies, and the private-sector tax community – partners in the Security Summit – are marking “National Tax Security Awareness Week” with a series of reminders to taxpayers and tax professionals. The series concludes today with warnings about small-business identity theft.

In the past year, the Internal Revenue Service has noted a sharp increase in the number of fraudulent Forms 1120, 1120S, and 1041, as well as Schedule K-1. The fraudulent filings apply to partnerships as well as estate and trust forms.

Identity thieves are displaying a sophisticated knowledge of the tax code and industry filing practices as they attempt to obtain valuable data to help file fraudulent returns. Security Summit partners have expanded efforts to better protect business filers and to better identify suspected identity theft returns.

EMPLOYER IDENTIFICATION NUMBERS (EINS)

Identity thieves have long made use of stolen Employer Identification Numbers (EINs) to create fake Forms W-2 that they would file with fraudulent individual tax returns. Criminals also have used EINs to open new lines of credit or obtain credit cards. Now, they are using company names and EINs to file fraudulent returns.



As with fraudulent individual returns, there are certain signs that may indicate identity theft. Business, partnerships, and estate and trust filers should be alert to potential identity theft and contact the IRS if they experience any of the following issues:

- Extension-to-file requests are rejected because a return with the Employer Identification Number or Social Security number is already on file;
- An e-filed return is rejected because of a duplicate EIN/SSN is already on file with the IRS or state tax agency;
- An unexpected receipt of a tax transcript or IRS or state tax agency notice that doesn't correspond to anything submitted by the filer; and/or
- Failure to receive expected and routine correspondence from the IRS or state tax agency because the thief has changed the address.



NEW PROCEDURES TO PROTECT BUSINESS IN 2018

The IRS, state tax agencies, and software providers also share certain data from returns, including business returns, which helps identify a suspicious filing. The IRS and states also are asking that business and tax practitioners provide additional information that will help verify the legitimacy of the tax return.

For 2018, these “know your customer” procedures are being put in place that include the following questions:

- The name and SSN of the company executive authorized to sign the corporate tax return. Is this person authorized to sign the return?
- Payment history – Were estimated tax payments made? If yes, when were they made, how were they made, and how much was paid?
- Parent company information – Is there a parent company? If yes, who?
- Additional information based on deductions claimed.
- Filing history – Has the business filed Form(s) 940, 941, or other business-related tax forms?

Sole proprietorships that file Schedule C and partnerships filing Schedule K-1 with Form 1040 also will be asked to provide additional information items, such as a driver's license number. Providing this information will help the IRS and states identify suspicious business-related returns.

For small businesses looking for a place to start on security, the National Institute of Standards and Technology (NIST) produced [Small Business Information Security: The Fundamentals](#). NIST is the branch of the U.S. Commerce Department that sets information security frameworks followed by federal agencies.

The United States Computer Emergency Readiness Team (US-CERT) has [Resources for Small and Midsize Businesses](#). Many secretaries of state also provide resources on business-related identity theft as well.

The IRS, state tax agencies, and the tax industry are working together to fight against tax-related identity theft and to protect business and individual taxpayers. Everyone can help. Take steps recommended by cyber experts and visit the [Identity Protection: Prevention, Detection and Victim Assistance](#) for information about business-related identity theft.

The Rhode Island Division of Taxation office is at One Capitol Hill in Providence, R.I., diagonally across from the Smith Street entrance to the State House, and is open to the public 8:30 a.m. to 3:30 p.m. business days. To learn more, see the agency's website: www.tax.ri.gov, or call (401) 574-8829.
