



BEWARE OF IDENTITY THEFT SCAM INVOLVING UNEMPLOYMENT BENEFITS

From the Journal of Accountancy by Sally P. Schreiber, J.D.

The IRS is warning taxpayers of an identity theft scam involving fraudulent claims for state unemployment benefits. Identity thieves are reportedly using stolen personal information to file for and receive unemployment benefits. This scam has proliferated during the COVID-19 pandemic as unemployment claims in general have skyrocketed.

In response, the IRS says taxpayers who receive Forms 1099-G, *Certain Government Payments*, reporting unemployment benefits they did not receive should contact the state unemployment agency and get a corrected form saying they did not receive those benefits ([IR-2021-24](#)).

The IRS told taxpayers who are unable to obtain a timely, corrected form that they should still file an accurate income tax return, reporting only the income they received. A corrected Form 1099-G showing zero unemployment benefits when taxpayers have been victims of identity theft will help them avoid being hit with an unexpected federal tax bill for unreported income, an especially unwelcome occurrence when they are unemployed.

In [guidance](#) posted to its website last year, the IRS stated that if payments are made due to identity theft and are mistakenly reported on Form 1099-G in the name of the identity theft victim, a corrected Form 1099-G reporting \$0 should be issued to the identity theft victim and filed with the IRS as soon as possible after the error is discovered.

The IRS explained that taxpayers who have been victims of this scam do not need to file a Form 14039, *Identity Theft Affidavit*, with the IRS reporting an incorrect Form 1099-G. The identity theft affidavit is used only if the taxpayer's e-filed return is rejected because a return using the same Social Security number already has been filed.

The IRS also told taxpayers they can protect themselves from federal tax return identity theft by requesting an identity protection PIN (IP PIN) from the IRS, which is now available to all taxpayers. An IP PIN is a six-digit number the IRS issues that prevents an identity thief from filing a tax return using a taxpayer's Social Security number. Because only the taxpayer and the IRS know the number, an IP PIN helps the Service verify the taxpayer's identity when the taxpayer files his or her paper or e-filed tax return.

The IRS also reminded taxpayers that unemployment benefits they actually did receive are taxable for federal income tax purposes and they should report them when they file their 2020 income tax returns in 2021. The forms will report the amount of benefits they received in 2020 and whether any federal income tax was withheld.