



October 26, 2015

Are Identity Theft Protection Services Taxable? A Closer Look at IRS Announcement 2015-22

TAX

BY XIAOYAN LI

Identity theft is a continuing concern throughout the United States. According to a study by Javelin Strategy & Research, 12.7 million taxpayers were the victims of identity theft in 2014¹. In response, businesses and other organizations are frequently offering identity theft protection services to secure the personal information of their employees and customers. Identity protection services include credit reporting and monitoring services, identity theft insurance policies, identity restoration services, and other services designed to prevent and mitigate further potential losses due to identity theft. Since these services are provided at no cost to the taxpayers, the question raised is whether these services should be taxable to those who receive such services.

To address this issue, the IRS recently provided guidance in Announcement 2015-22 for the tax treatment of identity protection services. The announcement states that the IRS will not require taxpayers to include the value received from identity protection services when taxpayers are victims of a data breach. It further states that the IRS does not require employers, who provide identity protection services to employees as a result of a data breach, to include the value of the services in the employees' wages or W-2s. The announcement goes on to clarify that if the value of the services is provided for reasons other than a data breach (such as identity protection services received in connection with an employee's compensation benefit package) or taxpayers choose to take cash in lieu of the identity protection services, that value is taxable to the taxpayers. Also, this announcement does not apply to proceeds from an identity theft insurance policy, since a previously existing law governs insurance policy proceeds.

Please note that Announcement 2015-22 is the initial guidance on the taxability of identity theft protection services, and additional guidance will most likely be forthcoming. In addition, this guidance specifically governs the federal income tax treatment and does not necessarily govern the taxation of this benefit for state income tax purposes. Please consult your tax advisor to determine how the receipt of identity theft protection services will impact your state income taxes.

Contact us with questions regarding IRS Announcement 2015-22 and visit our tax blog to read more articles on related topics.

¹Al Pascual and Sarah Miller. "2015 Identity Fraud: Protecting Vulnerable Populations" (March 2, 2015)

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).